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PART II
OFFERING CIRCULAR

Groundfloor Real Estate 1, LLC,
a Georgia limited liability company

Up to \$317,530 in aggregate amount of Limited Recourse Obligations

600 Peachtree Street, Suite 810
Atlanta, GA 30308
(404) 850-9225

Dated: November 15, 2019

This Offering Circular relates to the offer and sale of up to \$317,530 in aggregate amount of Limited Recourse Obligations (the “LROs”) to be issued by Groundfloor Real Estate 1, LLC (“GRE 1”). GRE 1 makes LROs available for investment on a web-based investment platform www.groundfloor.com (the “Groundfloor Platform”) owned and operated by Groundfloor Finance Inc. (“Groundfloor” or “Groundfloor Finance”). Except as the context requires otherwise, as used in this Offering Circular, the terms the “Company,” “our Company,” “we,” “us,” or “our” refer to GRE 1 exclusively. Groundfloor Finance and GRE 1 operate out of the same offices located at 600 Peachtree Street, Suite 810, Atlanta, Georgia 30308. The phone number for these offices is (404) 850-9225. Our mailing address is PO Box 79346, Atlanta, GA 30357.

The LROs will be issued in distinct series, each corresponding to a real estate development project (each, a “Project”) financed by a commercial loan from GRE 1 (each, a “Loan”). The borrower for each Project is a legal entity (the “Borrower”) that owns the underlying property and has been organized by one or more individuals (each, a “Principal”) that own and operate the Borrower. This Offering Circular relates to the offer and sale of each separate series of LROs corresponding to the Projects for which GRE 1 extends Loans, as described below (the “Offering”).

The LROs will be unsecured special, limited obligations of GRE 1. The LROs are not listed on any national securities exchange or on the over-the-counter inter-dealer quotation system. There is no market for the LROs. GRE 1’s obligation to make payments on a LRO is limited to an amount equal to each holder’s pro rata share of amount of payments, if any, actually received on the corresponding Loan, net of certain fees and expenses retained by us. See the sections titled “General Terms of the LROs,” “The LROs Covered by this Offering Circular,” and “Project Summaries” of this Offering Circular for the specific terms of the LROs.

We do not guarantee payment of the LROs in the amount or on the time frame expected. The LROs are not obligations of Groundfloor Finance, the Borrowers or their Principals, and we do not guarantee payment on the corresponding Loans. We have the authority to modify the terms of the corresponding Loans which could, in certain circumstances, reduce (or eliminate) the expected return on your investment. See “General Terms of the LROs—Administration, Service, Collection, and Enforcement of Loan Documents.”

The LROs are speculative securities. Investment in the LROs involves significant risk, and you may be required to hold your investment for an indefinite period of time. You should purchase these LROs only if you can afford a complete loss of your investment. See the “Risk Factors” section on page 10 of this Offering Circular.

We will commence the offering of each series of LROs promptly after the date this Offering Circular is qualified by posting on the Groundfloor Platform a separate landing page corresponding to each particular Loan and Project (each, a “Project Summary”). The offering of each series of LROs covered by this Offering Circular will remain open until the earlier of (1) 30 days, unless extended, or (2) the date the offering of a particular series of LROs is fully subscribed with irrevocable funding commitments (the “Offering Period”); however, we may extend the Offering Period for a particular series of LROs in our sole discretion (with notice to potential investors) up to a maximum of 45 days. We will notify investors who have previously committed funds to purchase such series of LROs of any such extension by email and will post a notice of the extension on the corresponding Project Summary on the Groundfloor Platform.

This Offering is being conducted on a “best-efforts” basis, which means that the officers of our sole member and manager, Groundfloor Finance, will use their commercially reasonable best efforts in an attempt to sell the LROs. Such officers will not receive any commission or any other remuneration for these sales. In offering the LROs on our behalf, the officers will rely on the safe harbor from broker-dealer registration set out in Rule 3a4-1 under the Securities Exchange Act of 1934, as amended.

This Offering Circular shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sales of these securities in any state in which such offer, solicitation, or sale would be unlawful, prior to registration or qualification under the laws of any such state.

NO FEDERAL OR STATE SECURITIES COMMISSION HAS APPROVED, DISAPPROVED, ENDORSED, OR RECOMMENDED THIS OFFERING. YOU SHOULD MAKE AN INDEPENDENT DECISION WHETHER THIS OFFERING MEETS YOUR INVESTMENT OBJECTIVES AND FINANCIAL RISK TOLERANCE LEVEL. NO INDEPENDENT PERSON HAS CONFIRMED THE ACCURACY OR TRUTHFULNESS OF THIS DISCLOSURE, NOR WHETHER IT IS COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS ILLEGAL.

THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION DOES NOT PASS UPON THE MERITS OF OR GIVE ITS APPROVAL TO ANY SECURITIES OFFERED OR THE TERMS OF THE OFFERING, NOR DOES IT PASS UPON THE ACCURACY OR COMPLETENESS OF ANY OFFERING CIRCULAR OR OTHER SOLICITATION MATERIALS. THESE SECURITIES ARE OFFERED PURSUANT TO AN EXEMPTION FROM REGISTRATION WITH THE COMMISSION; HOWEVER, THE COMMISSION HAS NOT MADE AN INDEPENDENT DETERMINATION THAT THE SECURITIES OFFERED HEREUNDER ARE EXEMPT FROM REGISTRATION.

	Offering price to the public	Underwriting discounts and commissions	Proceeds to issuer(1)(2)	Proceeds to other persons
Per Unit of LRO	\$ 10	N/A	\$ 10	N/A
Total LRO Minimum	\$ N/A	N/A	\$ N/A	N/A
Total LRO Maximum	\$ 317,530	N/A	\$ 317,530	N/A

(1) We estimate all expenses for this Offering to be approximately \$70,000, which will not be financed with the proceeds of the Offering.

(2) Assumes no promotions or discounts applied to any offerings covered by this Offering Circular.

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THIS OFFERING CIRCULAR CONTAINS ALL OF THE REPRESENTATIONS BY THE COMPANY CONCERNING THIS OFFERING, AND NO PERSON SHALL MAKE DIFFERENT OR BROADER STATEMENTS THAN THOSE CONTAINED HEREIN. INVESTORS ARE CAUTIONED NOT TO RELY UPON ANY INFORMATION NOT EXPRESSLY SET FORTH IN THIS OFFERING CIRCULAR.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COMPANY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THESE AUTHORITIES HAVE NOT PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE LIMITED RECOURSE OBLIGATIONS HAVE NOT BEEN QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE OR JURISDICTION.

THIS INVESTMENT INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD PURCHASE THESE SECURITIES ONLY IF YOU CAN AFFORD A COMPLETE LOSS OF YOUR INVESTMENT.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN OR INCORPORATED BY REFERENCE IN THIS OFFERING CIRCULAR, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY US.

IMPORTANT INFORMATION ABOUT THIS OFFERING CIRCULAR

Please carefully read the information in this Offering Circular as well in any additional supplements or post-qualification amendments (or “PQAs”) we may file with the Securities and Exchange Commission (the “SEC”). You should rely only on the information contained in this Offering Circular and any additional supplements or PQAs we file with the SEC. We have not authorized anyone to provide you with different information. This Offering Circular (and any related supplements or PQAs) may only be used where it is legal to sell these LROs. You should not assume that the information contained in this Offering Circular (or in any supplement or PQA we may file in the future) is accurate as of any date later than the date hereof or such other dates as are stated herein or as of the respective dates of any documents or other information incorporated herein by reference.

This Offering Circular is part of an offering statement that we filed with the SEC using a continuous offering process. GRE 1 will offer LROs continuously, and sales of LROs through the Groundfloor Platform can occur on a daily basis. We may add additional series of LROs to this Offering from time to time by filing one or more PQAs to this Offering Circular that identify the terms of the new series of LROs to be offered. We will commence offering additional series of LROs only after the qualification of a PQA covering such additional LROs. We also plan to file periodic supplements to this Offering Circular pursuant to Rule 253(g) under the Securities Act of 1933, as amended (the “Securities Act”), in which we will provide an update on our operations and on the servicing of outstanding Loans originated by us and by our affiliated companies.

In the event of other material developments, we will provide an offering circular supplement that may add, update or change information contained in this Offering Circular. We may also file a PQA to reflect any facts or events arising after qualification of the offering statement which, individually or in the aggregate, represent a fundamental change in the information set forth in the offering statement. Any statement that we make in this Offering Circular (as well as the offering statement of which it is a part) will be modified or superseded by any inconsistent statement made by us in a subsequent offering circular supplement or PQA. The offering statement we filed with the SEC includes exhibits that provide more detailed descriptions of the matters discussed in this Offering Circular.

The offering statement and all supplements and PQAs that we have filed or will file in the future can be read at the SEC website, www.sec.gov. You may also access this information through the internal directory on the Groundfloor Platform. The contents of the Groundfloor Platform and the Groundfloor website (other than this Offering Circular, the offering statement and the appendices and exhibits thereto, and the Listings) are not incorporated by reference in or otherwise a part of this Offering Circular.

OFFERING CIRCULAR SUMMARY

This summary highlights information contained elsewhere in this Offering Circular. This summary is not complete and does not contain all of the information that you should consider before investing in the LROs. You should carefully read the entire Offering Circular, especially concerning the risks associated with the investment in the securities covered by this Offering Circular discussed under the “Risk Factors” section beginning on page 10 and the information contained in the Project Summaries beginning on page PS-1. Some of the statements in this Offering Circular are forward-looking statements. See the section entitled “Special Note Regarding Forward-Looking Statements” below.

This Offering Circular relates to the Offering of up to \$317,530 in aggregate amount of the separate series of LROs, as identified below. See “The LROs Covered by this Offering Circular” below, the Project Summaries beginning on page PS-1, and the form of LRO Agreement beginning on page LRO-1.

Our Business

General

GRE 1 is a development stage company that was formed on December 16, 2016 by its sole member and manager, Groundfloor Finance. GRE 1 operates out of the same offices as Groundfloor Finance. Our principal offices are located at 600 Peachtree Street, Suite 810, Atlanta, GA 30308. The phone number for these offices is (404) 850-9225. Our mailing address is PO Box 79346, Atlanta, GA 30357.

The Groundfloor Platform and Limited Recourse Obligations

GRE 1 uses the web-based platform (the “Groundfloor Platform”) owned and operated by Groundfloor Finance to provide real estate development investment opportunities to the public, specifically for these purposes through the issuance and sale by GRE 1 of Limited Recourse Obligations (or “LROs”). Investors under this Offering Circular have the opportunity to buy LROs issued by GRE 1, the proceeds of which will fund a corresponding Loan facilitated through the Groundfloor Platform. We will issue LROs in denominations of \$10 and integral multiples of \$10. We will issue each series of LROs as soon as possible (typically within five days) after the end of the Offering Period (subject to completion of the Withdrawal Period as outlined below). We refer to the date the LROs are issued as the “original issue date.”

On each LRO in a series, we will pay to each holder thereof the Purchase Amount and the Accrued Return (each, as defined below) earned thereon (the “LRO Payments”). Our obligation to make LRO Payments is limited, in all circumstances, to an amount equal to the holder’s pro rata share of the amount of payments, if any, actually received on the corresponding Loan, net of certain fees and expenses (as described in more detail below, the “Loan Payments”). We will make LRO Payments within five business days of receipt of the corresponding Loan Payments. Our obligation to make LRO Payments automatically terminates (and the corresponding LRO shall be of no further force or effect) on the final payment date, which corresponds to the maturity date of the corresponding Loan, assuming the entire Purchase Amount and Accrued Return earned thereon have been paid to the holder at that time. Our obligation to make LRO Payments is automatically extended (up to a maximum of two years) if such amounts were not paid at the final payment date.

Through this basic structure, the LROs establish an expected yield (or expected return on investment), equal to the Purchase Amount paid for the LRO plus the Accrued Return earned thereon, which should be paid at a specified time.

For instance, if the Purchase Amount on a particular LRO was \$100, at an Expected Rate of Return of 10% per annum, with a final payment date of 12 months following issuance, expected yield for the LRO would be \$110, to be paid no later than 12 months (plus up to five business days for administrative convenience) after the date of issuance.

Investing in LROs is not without risk, and actual receipt of the expected yield in the time frame specified is not guaranteed. The LRO Agreement gives us sole discretion in applying amounts we receive from, or for the account of, the Borrower, with respect to the corresponding Loan, and we may make payments on the LROs out of any funds at our disposal. We have the authority to modify the terms of the corresponding Loans which could, in certain circumstances, reduce (or eliminate) the expected return on your investment. See “General Terms of the LROs—Administration, Service, Collection, and Enforcement of Loan Documents.” We may prepay the LROs at any time without penalty, and our payment obligation may be satisfied by making LRO Payments to investors of an amount that may be more or less than the expected yield, on a date different than originally specified. See “Risk Factors—You may receive a different return on your investment than originally expected and could suffer a complete loss of your investment.” If GRE 1 becomes subject to a bankruptcy or similar proceeding, you as holder of a LRO will have a general unsecured claim against GRE 1 that may or may not be limited in recovery to borrower payments in respect of the corresponding Loan. See “Risk Factors—If we or Groundfloor Finance were to become subject to a bankruptcy or similar proceeding . . .,” “—In a bankruptcy or similar proceeding of the Company or Groundfloor . . .,” and “—If we or Groundfloor Finance were to cease operations or enter into bankruptcy proceedings . . .” for additional information on this and other risks related to GRE 1 or Groundfloor Finance becoming subject to a bankruptcy or similar proceeding.

The LROs will be unsecured special, limited obligations of GRE 1 only. The LROs are unsecured, and holders of the LROs do not have a security interest in the corresponding Loans or the proceeds of those corresponding Loans, or in any assets of the Company (or of Groundfloor Finance or its subsidiaries), or of any Borrower or any of its Principal(s). The LROs are not obligations of Groundfloor Finance, the Borrowers or their Principals, and we do not guarantee payment on the corresponding Loans.

The intended focus of the financing program is the commercial market for lending to developers of residential and small commercial real estate projects owned and occupied by parties other than the real estate developer that owns and operates the Project or toward refinancing existing indebtedness. The Borrower for each Project is a legal entity that owns the underlying property and has been organized by its Principal(s). Proceeds from the Loans typically will be applied toward the Project's acquisition and/or renovation or construction costs. In some circumstances, we may permit a portion of the proceeds from the Loan to be used by the Borrower to offset a portion of the purchase price of the property, works completed, or equity, but such offset will then reduce its amount of "skin-in-the-game" the Borrower would have in the Project (see below under "Description of the Business of GRE 1 and of Groundfloor Finance—Our Loans to Borrowers—Credit Risk and Valuation Assessment—The Grading Algorithm—'Skin-in-the-Game'").

Generally, the Loans related to the LROs range between \$10,000 and \$3,000,000, at interest rates that range, subject to applicable law, between 3% and 26%, and mature six months to five years from the date when the Loan is made. The terms of each series of LROs generally correspond to those of the corresponding Loan. For example, assuming a Borrower wishes to enter into a Loan covering \$10,000, with an interest rate of 10% and a 12-month term, the aggregate Purchase Amount of the LROs of the series corresponding to that Loan would be \$10,000, with an Expected Rate of Return of 10% per annum, and a final payment date of 12 months from the date of issuance.

We may use the proceeds of the sale of the corresponding series of LROs to originate the Loan and, in those circumstances, we would close and fund the corresponding Loan on the original issue date of the LROs. However, now that we have implemented our loan advance program, in most circumstances, we, Groundfloor Finance, or a subsidiary of Groundfloor Finance will advance Loans prior to the qualification or sale of the corresponding series of LROs. These advances are typically funded from one or more lines of credit or borrowing arrangements entered into by Groundfloor Finance or one of its subsidiaries, but there may be circumstances that we, or Groundfloor Finance or one of its subsidiaries, could utilize operating capital for these purposes. See "Description of the Business of GRE 1 and of Groundfloor Finance—How the Groundfloor Platform Operates—Loan Advances." If we subsequently qualify and fully subscribe a series of LROs that corresponds to an advanced Loan, all or a portion of the proceeds from the sale of the corresponding series of LROs will be used to repay the advanced amount. The advanced Loan is also assigned to GRE 1 at that time and, to ensure investors have the right to receive the expected yield on the LROs as described in the corresponding Project Summary, the maturity date is also adjusted to reflect a loan term as if the origination had occurred on the original issue date. Although most of our Loans will be advanced, it will nevertheless be noted under the "Project Specific Risk Factors" on the applicable Project Summary. If a Loan is advanced after the series of LROs corresponding to such loan has been qualified, but before such LROs have been issued, we will notify investors by email within 48 hours of the advance, and update the Project Summary of the advanced Loan on the Groundfloor Platform within the same time period to reflect the status of the Loan. An offering circular supplement will also be filed with the SEC on EDGAR including the revised Project Summary.

The specific terms for each series of LROs being offered under this Offering Circular are set forth in "The LROs Covered by this Offering Circular" below, the Project Summaries beginning on page PS-1, and the form of LRO Agreement. GRE 1 will repay the amounts advanced for the Loan and/or fund each Loan out of the proceeds of the sale of the series of corresponding LROs. The Borrower will use the proceeds from the Loan GRE 1 finances to complete the Project, repaying principal and interest (either as a balloon payment at maturity or on a monthly/quarterly basis) to GRE 1.

GRE 1 will take out a lien on the real estate underlying the Project to secure the Loan; however, investors in the corresponding series of LROs will not have any recourse against Groundfloor Finance, the Borrower or its Principals. Your recourse against us is limited to an amount equal to the amount of any LRO Payments we owe you (as determined pursuant to the terms of the corresponding LRO Agreement).

We will charge Borrowers origination (which currently range between 2% and 6% of the principal loan amount) and servicing (which currently range between 0.5% and 5% of the principal loan amount) fees, which typically will be included in the total amount of the Loan. Investors are not charged any fees in connection with this Offering of the LROs and are not charged any service fees with respect to LRO Payments made with respect to the LROs covered by this Offering Circular. Investors are not currently charged any fees for the use of the Groundfloor Platform. See below and “Description of the Business of GRE 1 and of Groundfloor Finance—Fees and Related Expenses.”

The general terms of the LROs are summarized in the following table. See “General Terms of the LROs” below for additional information. For specific details on the information for each series of LROs covered by this Offering Circular and their corresponding Loans and Projects, see “The LROs Covered by this Offering Circular” below, the Project Summaries beginning on page PS-1, and the form of LRO Agreement beginning on page LRO-1.

We may abandon or withdraw an offering of a particular series of LROs at any time prior to its issuance, in each case as further described below. If we abandon or withdraw an offering of a particular series of LROs, we will promptly release all funds (without interest) committed to purchase that series; after which you may elect to transfer such funds to your bank account or make a commitment to purchase a different series of LROs.

General Terms of the LROs

Limited Recourse Obligations

Issuer	Groundfloor Real Estate 1, LLC, a Georgia limited liability company.
Security Offered	Limited Recourse Obligations, or LROs, issued in series, with each series of LROs related to a corresponding Loan. All LROs will be issued in electronic form only. All LROs will be offered only through the Groundfloor Platform to potential investors who have registered and established a funding account on the Groundfloor Platform, and there will be no commissioned sales agents, underwriters, or underwriting discounts. See “Plan of Distribution.”
Minimum Purchase Amount	Investments may be made in denominations of \$10 and integral multiples of \$10. We refer to the aggregate amount invested by a holder of a single LRO of a series as the “Purchase Amount” of that LRO. The aggregate Purchase Amounts of all LROs of a particular series will equal the total principal amount of the corresponding Loan.
Expected Rate of Return and Accrued Return	The expected annual rate of return on the LRO (the “Expected Rate of Return”) will be the same as the interest rate for the corresponding Loan. The “Accrued Return” is the amount earned on the Purchase Amount at the Expected Rate of Return from the original issue date through the date the Company’s obligation to make any LRO Payments terminates. The form of LRO Agreement made available at the time you make your non-binding commitment will reflect the original issue date as “to be determined.”
Loan Payments	All amounts received by the Company as payment of the corresponding Loan, including, without limitation, all payments or prepayments of principal and interest, any Collection Proceeds (as defined below); provided, however, that such payments shall be net of any Company Fees and Expenses (as defined below), Collection Costs (as defined below), loan modification fees or fees deducted by a backup or successor servicer (the categorization of all such items to be determined by the Company or its agent in a manner consistent with the Loan Agreement).
LRO Payments	The LRO Agreement provides that, subject to the application of Loan Payments received as Collection Proceeds and our ability to prepay the LRO, we will pay to each holder of a LRO the Purchase Amount and the Accrued Return earned thereon as “LRO Payments.” Our obligation to make LRO Payments is limited, in all circumstances, to an amount equal to the holder’s pro rata share of the amount of Loan Payments, if any, actually received on the corresponding Loan. The LRO Agreement gives us sole discretion in applying amounts we receive from, or for the account of, the Borrower, with respect to the corresponding Loan, and we may make LRO Payments out of any funds at our disposal.

LRO Payments will occur within five business days of receipt of Loan Payments with respect to the corresponding Loan. As a result, the expected repayment schedule on each series of LROs generally reflects the same repayment schedule (subject to prepayment) as the corresponding Loan. The repayment schedule for the Loans will vary by Project; however, typically, repayment is made either as a balloon payment at maturity or interest only on a monthly/quarterly basis, with the principal amount paid at maturity.

Final Payment Date

The date our obligation to make payments on a series of LROs terminates, unless otherwise extended. The final payment date for each series of LROs corresponds to the maturity date of the corresponding Loan.

Extended Payment Date

The date that corresponds to the second anniversary of the final payment date.

If, on or within five business days of the final payment date, any Purchase Amount of, or Accrued Return earned on, the LRO through the final payment date remains due and payable, our payment obligation with respect to that series of LROs will automatically be extended for no more than two years. In such case, our obligation to make LRO Payments on such series of LROs will terminate on the earlier of (1) the date on which the remaining Purchase Amount of, or Accrued Return earned on, the LRO through the date of payment has been paid in full, (2) the date on which all available Collection Proceeds have been applied and the Holder's pro rata share thereof paid as LRO Payments in accordance with the terms of the LRO Agreement, or (3) the extended payment date. The Company will not have to make any further LRO Payments (irrespective of whether the expected yield on the LRO has been paid in full) after the extended payment date.

Event of Default

The LRO Agreement stipulates certain events that would trigger an event of default under the LRO and the remedies you may pursue. See "General Terms of the LROs—Events of Default."

Servicing Standards

The administration, servicing, collection, and enforcement activities on a Loan are undertaken by Groundfloor Finance (acting as GRE 1's agent) in each particular circumstance, in accordance with specific servicing standards set forth in the LRO Agreement, with the goal of maximizing the amount of the LRO Payments to be paid to investors prior to termination of our limited payment obligation thereunder. See "General Terms of the LROs—Administration, Service, Collection, and Enforcement of Loan Documents" and "—Collection Proceeds, Costs, and Expenses."

Abandonment

We may abandon an offering of a particular series of LROs at any time prior to its issuance. Offerings are typically abandoned because the Borrower withdraws its funding request or they are not fully subscribed by the end of the Offering Period. If we abandon an offering of a particular series of LROs, we will promptly (but under no circumstances more than 48 hours following receipt of a withdrawal notice from the Borrower or our determination to abandon the offering) release all funds (without interest) committed to purchase that series; after which, you may elect to transfer such funds to your bank account or make a commitment to purchase a different series of LROs.

Withdrawn Offerings

We may withdraw an offering of a particular series of LROs at any time prior to its issuance. Offerings are typically withdrawn due to the need to correct or modify specific disclosures about the terms of the related series of LROs and the series of LROs that correspond to Loans that are withdrawn are typically re-qualified at a later date. More often than not, we withdraw Loans from an offering before commencing the Offering Period for the corresponding LROs. However, if commitments have been made towards a series that is withdrawn, we will promptly (but under no circumstances more than 48 hours following receipt of a withdrawal notice from the Borrower or our determination to withdraw the offering) release all funds (without interest) committed to purchase that series; after which, you may elect to transfer such funds to your bank account or make a commitment to purchase a different series of LROs.

Prepayment

We may prepay the LROs at any time without penalty. Generally, outside of the context of a Borrower default, we will only prepay a series of LROs if the Borrower prepays the corresponding Loan. Our obligation to make any LRO Payments will automatically terminate (and the corresponding LRO shall be of no further force or effect) once all of the Purchase Amount of, and Accrued Return earned on, any LRO through the date of payment is paid in full.

Investment Documents

In addition to the Terms of Service and Privacy Policy (each as defined below), each investor must agree to the Investor Agreement (as defined below), which governs the general rights and obligations in connection with investing in LROs issued by GRE 1 through the Groundfloor Platform, and the LRO Agreement, which governs the offer and sale of each particular series of LROs, as well as certain rights and obligations of purchasers of a series of LROs and of the Company. The standard form of LRO Agreement begins on page LRO-1 of this Offering Circular. Investors may review the form of LRO Agreement applicable to a particular series of LROs by accessing the hyperlink on the corresponding Project Summary on the Groundfloor Platform.

At the time you make your non-binding commitment for a particular series of LROs, you will be provided (by hyperlink) with a PDF copy of the LRO Agreement that is applicable to your particular investment. This version of the LRO Agreement will reflect the terms of your proposed investment (including the Purchase Amount and Expected Rate of Return); however, the original issue date, final payment date and extended payment date will be reflected as “to be determined,” since those dates are dependent upon the actual issuance of the corresponding series of LROs and the maturity date of the corresponding Loan. Following the issuance of the LROs and without any action on your part, we will (1) revise the LRO Agreement to reflect the actual original issue date, the final payment date (to correspond with the maturity date of the Loan) and the extended payment date, (2) notify you (by email) of such change, and (3) make available a copy of the LRO Agreement (as revised) through the Groundfloor Platform.

Ranking

The LROs will not be contractually senior or contractually subordinated to any indebtedness of GRE 1 (or of Groundfloor Finance or any of its subsidiaries). The LROs will be unsecured special, limited obligations of GRE 1 only. Holders of the LROs do not have a security interest in the corresponding Loans or the proceeds of those corresponding Loans, or in any assets of the Company (or of Groundfloor Finance or its subsidiaries), or of any Borrower or of its Principal(s). **Investing in the LROs is not without risk, and actual receipt of the expected yield in the time frame specified is not guaranteed. We have the authority to modify the terms of the corresponding Loans which could, in certain circumstances, reduce (or eliminate) the expected return on your investment.** See “General Terms of the LROs—Administration, Service, Collection, and Enforcement of Loan Documents.”

We will be obligated to make payments on the LROs only if and to the extent we receive Loan Payments on the corresponding Loan. We will pay to holders of the corresponding series of LROs an amount equal to their respective pro rata share of the amount of Loan Payments, if any, actually received. Loan Payments will be secured by the assets of the corresponding Project.

In the event of a bankruptcy or similar proceeding of the Company, the relative rights of the holder of the LROs as compared to the holders of unsecured indebtedness of the Company are uncertain. If we were to become subject to a bankruptcy or similar proceeding, the holder of the LROs will have an unsecured claim against us that may or may not be limited in recovery to the corresponding Loan. For a more detailed description of the possible implications if we or Groundfloor Finance became subject to a bankruptcy or similar proceeding, see “Risk Factors—If we or Groundfloor Finance were to become subject to a bankruptcy or similar proceeding . . .,” “—In a bankruptcy or similar proceeding of the Company or Groundfloor . . .,” and “—If we or Groundfloor Finance were to cease operations or enter into bankruptcy proceedings . . .”

Offering Period

We will commence the offering of a series of the LROs promptly after the date this Offering Circular or a PQA covering such series is qualified by posting on the Groundfloor Platform a separate Project Summary corresponding to each particular Loan and Project (each, a “Project Summary”). Copies of each of the Project Summaries as posted at the commencement of the offering begin on page PS-1 of this Offering Circular. The offering of each series of LROs covered by this Offering Circular will remain open until the earlier of (1) 30 days, unless extended, or (2) the date the Offering of a particular series of LROs is fully subscribed with irrevocable funding commitments; however, we may extend the Offering Period for a particular series of LROs in our sole discretion (with notice to potential investors) up to a maximum of 45 days. We will notify investors who have previously committed funds to purchase such series of LROs of any such extension by email and will post a notice of the extension on the corresponding Project Summary on the Groundfloor Platform. A commitment to purchase LROs becomes irrevocable following expiration of the Withdrawal Period. Commitments to purchase LROs made after expiration of the Withdrawal Period, if any, are irrevocable when authorized and may not be withdrawn.

We will issue each series of LROs as soon as possible (typically within five days) after the end of the Offering Period. Unless the Loan has not been advanced, all or a portion of the proceeds from the sale of the corresponding series of LROs will be used to repay the advanced amount. The advanced Loan is also assigned to GRE 1 and its maturity date adjusted to reflect the term as if the origination had occurred on the original issue date. If the Loan has not been advanced, we will use the proceeds of the sale of the corresponding series of LROs to originate the Loan and will close and fund the corresponding Loan on the original issue date of the LROs.

If the offering of a series of LROs is abandoned or withdrawn before, or not fully subscribed with irrevocable funding commitments by, the end of the Offering Period, we will notify investors and promptly release committed funds and make them available in their funding accounts.

Use of Proceeds	We will use the proceeds of each offering of a series of LROs to repay the funds (without any interest) used to advance the Loan or, if applicable, to fund the Loan to a Borrower that we are originating directly. See “Use of Proceeds.”
Secondary Trading	The LROs do not contain any provision restricting their transferability, other than the requirements that any transfer be conducted consistent with applicable law, that any transferee register as an investor with us, and that such transferee agrees to the terms of the Investor Agreement and the LRO Agreement governing such series of LROs. However, the LROs will not be listed on any securities exchange, nor do we have plans to establish any kind of trading platform to assist investors who wish to sell their LROs. We will not facilitate or otherwise participate in the secondary transfer of any Security. There is no public market for the LROs, and none is expected to develop. Certain states, including California and Texas, also impose additional statutory restrictions on secondary trading of the LROs purchased in the Offering, which may further restrict the transferability of the LROs. Prospective investors are urged to consult their own legal advisors with respect to secondary trading in the LROs.
Risk Factors	An investment in any series of LROs involves a high degree of risk. See the section entitled “Risk Factors” on page 10 of this Offering Circular and additional information that may be contained in the Project Summaries beginning on page PS-1 of this Offering Circular.

General Terms of Loans to Borrowers

Terms of our Loans with a particular Borrower are determined through an application and intake process managed on the Groundfloor Platform. (See “Description of the Business of GRE 1 and of Groundfloor Finance—How the Groundfloor Platform Operates.”) The Company and each Borrower will enter into a loan agreement (the “Loan Agreement”) and certain additional documents, including a promissory note, certain mortgage instruments (including a deed of trust or similar security document), and other documents or instruments evidencing or securing the Loan and any other documents entered into in connection with the Loan Agreement (together, with the Loan Agreement, the “Loan Documents”).

The terms of each series of LROs generally correspond to those of the corresponding Loans. The specific terms of the Loan corresponding to each series of LROs being offered hereby are set forth in “The LROs Covered by this Offering Circular” below, the Project Summaries beginning on page PS-1, and the form of LRO Agreement beginning on page LRO-1. This information can also be accessed on the Groundfloor Platform.

The following discussion provides an overview of the range of terms offered to Borrowers.

Loan Principal	The total principal amount borrowed under the corresponding Loan (the “Loan Principal”), which ranges between \$10,000 and \$3,000,000 depending on the Project. Borrowers are charged origination and servicing fees and closing expenses, which may be included in the total amount of the Loan or paid directly by the Borrower at closing.
Interest Rate of Loans to Borrowers	Annual fixed interest rate between 3% and 26%, depending upon the Project and subject to applicable law. Interest begins to accrue on all Loan Principal from the origination date of the Loan, irrespective of when funds are advanced to Borrowers.
Advancement of Loan Proceeds	The proceeds of the Loan (less any fees and expenses included in the Loan Principal) (the “Loan Proceeds”) will remain in an account maintained at the FBO Servicer (as defined below) titled in our name “for the benefit of GRE 1 Borrowers” (the “GRE 1 Borrower FBO Account”) until disbursed pursuant to the terms of the Loan Agreement. Typically amounts are disbursed to the Borrower from time to time as construction advances or draws (each, a “Draw”). Under limited circumstances (for instance if the Loan Principal is \$50,000 or less or when an amount greater than \$50,000 is needed for the acquisition of a property) the full amount of the Loan Proceeds will be disbursed to the Borrower on the origination date of the Loan.

Maturity Date of Loans to Borrowers	Varies by Project. The maturity of the Loans typically ranges between six months and five years. The maturity date of any advanced Loans will always be adjusted in connection with the issuance of the corresponding LROs to reflect the term disclosed in the corresponding Project Summary.
Repayment Terms of Loans to Borrowers	The repayment schedule for the Loans will vary by Project; however, typically, repayment is made either as a balloon payment at maturity or interest only on a monthly/quarterly basis, with the principal amount paid at maturity.
Prepayment	Loans may be prepaid without penalty.

We do not make any general solicitation or advertisement of this Offering in any jurisdiction that this Offering is not registered. This Offering is being conducted on a “best-efforts” basis, which means the officers of our sole member and manager, Groundfloor Finance, will attempt to sell the LROs to prospective investors through the Groundfloor Platform without the use of an underwriter. We will not pay any commission or other remuneration to the officers for these efforts. In the future, we or our affiliates may conduct separate offerings of additional series of LROs under Regulation A or in reliance on other exemptions from federal and state registration requirements.

Fees and Related Expenses

Subject to the application of Loan Payments received as Collection Proceeds and our ability to prepay the LRO, we will pay to each holder of a LRO the Purchase Amount and the Accrued Return earned thereon as LRO Payments. Our obligation to make LRO Payments is limited, in all circumstances, to an amount equal to the holder’s pro rata share of the amount of Loan Payments, if any, actually received on the corresponding Loan. For these purposes, LRO Payments include all payments or prepayments of principal and interest under the Loan as well as amounts received whether prior to or in connection with a Borrower bankruptcy or in connection with any exercise of the Company’s powers to administer, service, collect and enforce the terms of the Loan or of the Loan Documents.

The chart below summarizes the current treatment of the various fees we charge and expenses we incur in connection with our underwriting and loan administration services, each of which is discussed in more detail below under “Description of the Business of GRE 1 and of Groundfloor Finance—Fees and Related Expenses,” “General Terms of the LROs—Collection Proceeds, Costs, and Expenses,” and “Description of the Business of GRE 1 and of Groundfloor Finance—Project Funding and Payment of Expected Yield—Servicing and Collection of Loans Generally.”

Type of Fee	Amount of Fee/Expense	Application of Fees
Origination Fees	Typically ranging from 2% to 6%	Charged to each Borrower and retained by entity originating the Loan. Fee typically included in total amount of the Loan funded on the Groundfloor Platform or paid directly by the Borrower at closing.
Servicing Fees	Typically ranging from 0.5% to 5%	Charged to each Borrower and retained by GRE 1 (unless the originating entity is in the position to service the Loan at the time fee is charged). Fee is levied with each draw, or upon repayment of full Loan Principal.
Closing Expenses	\$500 to \$3,500	Charged to the Borrower and retained by entity originating Loan. Fee is typically included in total amount of the Loan funded on the Groundfloor Platform or paid directly by the Borrower at closing.
Check Processing Fee	Up to \$15	Fees would be paid by the Borrower and retained by GRE 1.
Non-Sufficient Funds	\$15 to \$35	Fees would be paid by the Borrower and retained by GRE 1.
Loan Modification Fees	Variable	Fees paid by the Borrower and retained by GRE 1.
Collection Proceeds and Collection Costs		
Penalty Interest Rate	Variable. Typically, up to an additional 2%, subject to applicable law	Additional interest paid by the Borrower. Corresponding amounts, less Collection Costs, are included in LRO Payments
Late Charge	The lesser of 4% or the maximum amount permitted to be charged under applicable law	Late charge is paid by the Borrower. Corresponding amounts, less Collection Costs, are included in LRO Payments.
Default Rate	The lesser of 20% or the maximum rate permitted to be charged, less Collection Costs	Additional interest paid by the Borrower. Corresponding amounts, less Collection Costs, are included in LRO Payments.
Other Collection Proceeds	Variable	Corresponding amounts, less Collection Costs, are included in LRO Payments.
Collection Costs	Variable	Expenses paid and retained by GRE 1 (or its agent) out of the Collection Proceeds.

Investors are not charged any fees in connection with the Offering of, and will not charge any service fees with respect to LRO Payments made with respect to, the LROs covered by this Offering Circular. Neither we nor Groundfloor currently charge investors any fees for the use of the Groundfloor Platform. See the section titled “Description of the Business of GRE 1 and of Groundfloor Finance—Fees and Related Expenses” below for more information.

Example LRO and Expected Yield

By way of illustration, assume we approve an acquisition and construction Loan with the following terms: \$100,000 in principal amount, with a 10% interest rate over a 12-month term, and a balloon payment upon maturity. We would offer LROs covering \$100,000 in aggregate Purchase Amount, at an Expected Rate of Return of 10%; with the final payment date of 12 months following the original issue date.

If the Borrower elects to include our origination and servicing fees (of \$4,000 or 4%) and closing expenses (of \$1,000) in the Loan Principal, upon funding of the Loan by investors, the Borrower’s FBO Account would be credited with \$95,000 (equal to the entire Loan Principal of \$100,000 less the \$5,000 in fees and expenses, which we retain). Interest on the entire \$100,000 would accrue beginning on the original issue date, through the 12-month term of the Loan, and, at the end of that 12-month term (assuming there are no additional fees and expenses incurred by the Company and no prepayment or default by the Borrower), the Borrower would pay us a total of \$110,000 (equal to the entire Loan Principal of \$100,000, plus \$10,000 of accrued interest). We would, within five business days of receipt of these funds, disburse to each holder of the corresponding series of LROs an amount equal to such holder’s pro rata share of \$110,000 (the total Loan Payment we received from the Borrower).

In most cases, the Loan will have been advanced prior to qualification of the corresponding series of LROs. As a result, the Loan would be amended in connection with the closing of the series of LROs to assign the Loan to GRE 1 from Groundfloor Finance or applicable subsidiary and to amend the maturity date to match the term of the corresponding series of LROs (i.e., 12 months in the example above). Interest that accrues on the advanced Loan before the issuance of the corresponding series of LROs is retained by GRE 1; thereafter, there would be no other difference between the original issue date and the payment of the Loan and corresponding series of LROs as described above. See “Description of the Business of GRE 1 and of Groundfloor Finance—How the Groundfloor Platform Operates—Loan Advances” below for more information on the loan advance program.

Summary Financial Information

Since its inception, Groundfloor Finance has financed its operations through debt and equity financings. Groundfloor Finance intends to continue financing its activities and working capital needs (and those of GRE 1) largely from private financing from individual investors and venture capital firms until such time that funds provided by operations are sufficient to fund working capital requirements.

GRE 1 and Groundfloor Finance Business Information

GRE 1 is a Georgia limited liability company. Groundfloor Finance is a Georgia corporation. The principal offices of GRE 1 and Groundfloor Finance is located at 600 Peachtree Street, Suite 810, Atlanta, GA 30308. The phone number for these offices is (404) 850-9225. The mailing address for GRE 1 and Groundfloor Finance is PO Box 79346, Atlanta, GA 30357, and our email address is contact@groundfloor.com.

RISK FACTORS

Investing in the LROs involves a high degree of risk. In deciding whether to purchase the LROs, you should carefully consider the following risk factors and additional information about the risks associated with a particular series of LROs that may be contained in the Project Summaries beginning on page PS-1 of this Offering Circular. Any of the following risks could have a material adverse effect on the value of the LROs you purchase and could cause you to lose all or part of your initial Purchase Amount or could adversely affect future payments you expect to receive on the LROs. Only investors who can bear the loss of their entire Purchase Amount should purchase the LROs.

Risks Related to Investing in the LROs

Groundfloor Finance's auditor has expressed substantial doubt about its ability to continue as a going concern.

Groundfloor's consolidated financial statements for the period ended December 31, 2018 include a going concern note from its auditors. Groundfloor incurred a net loss for the years ending December 31, 2018 and December 31, 2017, and had an accumulated deficit of \$17.6 million and \$11.5 million as of December 31, 2018 and December 31, 2017, respectively. In view of these matters, Groundfloor's ability to continue as a going concern is dependent upon Groundfloor's ability to increase operations and to achieve a level of profitability. Since inception, Groundfloor has financed its operations through debt and equity financings. Groundfloor intends to continue financing its future activities and its working capital needs largely from private financing from individual investors and venture capital firms until such time that funds provided by operations are sufficient to fund working capital requirements. The failure to obtain sufficient debt and equity financing and to achieve profitable operations and positive cash flows from operations could adversely affect Groundfloor's ability to achieve its business objective and continue as a going concern.

We have a limited operating history as does our parent company. As companies in the early stages of development, we face increased risks, uncertainties, expenses and difficulties.

GRE 1 has a limited operating history and Groundfloor Finance (with its affiliates) has a limited operating history. GRE 1 previously issued Limited Recourse Obligations pursuant to a Regulation A Offering Statement (File No. 024-10671) qualified by the Staff on May 5, 2017. In connection with such Regulation A Offering Statement, GRE 1 originated thirty-five (35) Loans and issued Limited Recourse Obligations until September 1, 2017. No Limited Recourse Obligations issued pursuant to such Regulation A Offering Statement nor any Loans corresponding to such Limited Recourse Obligations remain outstanding at this time. Groundfloor Finance owns and operates the Groundfloor Platform. Groundfloor Finance began originating real estate loans in Georgia through a subsidiary in November 2013 and transitioned to multi-state operations through the sale of LROs under a Regulation A offering in September 2015. See "Management Discussion and Analysis" below.

For Groundfloor's business to be successful, the number of real estate development projects financed by us, Groundfloor and its subsidiaries will need to increase, which will require Groundfloor to increase its facilities, personnel and infrastructure to accommodate the greater servicing obligations and demands on the Groundfloor Platform. The Groundfloor Platform is dependent upon Groundfloor's website to maintain current listings and transactions in the LROs offered by us and by our affiliates. Groundfloor must constantly update its software and website, expand its customer support services and retain an appropriate number of employees to maintain the operations of the Groundfloor Platform, as well as to satisfy our servicing obligations on the Loans and to make payments on the LROs. If Groundfloor is unable to increase the capacity of the Groundfloor Platform and maintain the necessary infrastructure, you may experience delays in receipt of payments on the LROs and periodic downtime of our systems.

Groundfloor and GRE 1 have incurred net losses in the past and expects to incur net losses in the future. If Groundfloor becomes insolvent or bankrupt, you may lose your investment.

Groundfloor has incurred net losses in the past, and Groundfloor expects to incur net losses in the future. Groundfloor's accumulated deficit was \$17.6 million and \$11.5 million as of December 31, 2018 and December 31, 2017, respectively. Groundfloor has not been profitable since its inception, and Groundfloor may not become profitable. The same can be said for GRE 1. In addition, Groundfloor expects its operating expenses to increase in the future as Groundfloor expands its operations. If operating expenses exceeds expectations, financial performance could be adversely affected. If revenue does not grow to offset these increased expenses, GRE 1 and Groundfloor may never become profitable. In future periods, GRE 1 and Groundfloor may not have any revenue growth or the revenue of GRE 1 and Groundfloor could decline. Groundfloor's failure to become profitable could impair the operations of the Groundfloor Platform by limiting Groundfloor's access to working capital required to operate the Groundfloor Platform. If GRE 1 or Groundfloor were to become insolvent or bankrupt, it is likely that GRE 1 would default on GRE 1's payment obligations under the LROs, and you may lose your investment.

Groundfloor Finance has relied on multiple debt financings and has substantial indebtedness, which many affect the financial condition of Groundfloor Finance and GRE 1.

Historically, Groundfloor Finance relied on debt financing to fund its start-up costs and working capital for its operations. See "Management Discussion and Analysis—Liquidity and Capital Resources" for more information on these financings. More recently, Groundfloor Finance has relied on debt financing in connection with its loan advance program. See "Description of the Business of GRE 1 and of Groundfloor Finance—How the Groundfloor Platform Operates—Loan Advances" and "Interest of Management and Others in Certain Transactions—ISB Note" below for more information on these financings. Groundfloor Finance's obligations under these loans will reduce its available cash for re-investment and, therefore, may negatively impact its potential profitability until all amounts are repaid. In addition, since Groundfloor Finance has granted a security interest under these loans for certain assets. If Groundfloor Finance defaulted on its obligations, the secured parties could elect foreclose on these assets and such a foreclosure would have an adverse affect on the ability of Groundfloor (and GRE 1) to operate its business.

Groundfloor Finance's substantial indebtedness may also limit its ability to borrow additional funds or obtain additional financing in the future. If GRE 1 or Groundfloor Finance obtain additional debt financing to fund our and/or its operations or as capital for the loan advance program, a substantial portion of our and/or its operating cash flow may be dedicated to the payment of principal and interest on such indebtedness, and the terms of the debt securities issued could impose significant restrictions on our and/or its operations.

Our management team has limited experience in mortgage loan underwriting.

GRE 1 has a limited operating history and Groundfloor Finance (with its affiliates) has a limited operating history. GRE 1 previously issued Limited Recourse Obligations pursuant to a Regulation A Offering Statement (File No. 024-10671) qualified by the Staff on May 5, 2017. In connection with such Regulation A Offering Statement, GRE 1 originated thirty-five (35) Loans and issued Limited Recourse Obligations until September 1, 2017. No Limited Recourse Obligations issued pursuant to such Regulation A Offering Statement nor any Loans corresponding to such Limited Recourse Obligations remain outstanding at this time. GRE 1 relies on Groundfloor Finance to make underwriting decisions with respect to the Loans that are being funded through the sale of LROs. Groundfloor Finance began originating real estate loans in Georgia through a subsidiary in November 2013 and transitioned to multi-state operations through the sale of LROs under a Regulation A offering in September 2015. A limited number of our management team has experience in mortgage loan underwriting and the founders of Groundfloor Finance had no such experience at the time it began operations. See “Management Discussion and Analysis—Overview” and “Management—Biographies of Directors, Executive Officers and Significant Employees of Groundfloor Finance.” If the method adopted by Groundfloor Finance for evaluating potential Projects to fund and for establishing interest rates for the corresponding Loans proves flawed, investors may not receive the expected yield on the LROs. Although the proprietary Grading Algorithm utilized by Groundfloor Finance is based upon certain quantifiable characteristics that have been developed and is primarily driven by leverage and asset value, there is no assurance that the Grading Algorithm will accurately assess the risks associated with the Borrower or the property for which the Loan is being sought.

If we are not current on certain registrations, licenses, filings, or other documents, we may be required to repurchase securities you have bought.

In December 2016, Groundfloor Finance issued and sold three series of LROs after the original Form U-1 for such offering had expired. The LROs were refunded in full, including all accrued interest, and submitted again to be offered under a subsequent post-qualification amendment to Groundfloor Finance’s Offering Statement on Form 1-A, covered by the Form U-1 dated December 21, 2016. See “Description of the Business of GRE 1 and of Groundfloor Finance—Legal Proceedings” for additional information. If GRE 1 does not stay current on certain registrations, licenses, filings, or other documents related to the Offering, we may be required to repurchase securities you have bought and as a result you would not receive the expected yield on the LROs purchased.

Payments on the LROs depend entirely on the payments received from the Borrower. If we do not receive such payments from the Borrower, you will not receive any payments on your LRO.

Only GRE 1, and not Groundfloor Finance, is obligated to make LRO Payments only to the extent GRE 1 receives Loan Payments on the corresponding Loan. Borrowers are able to make payments on their loans primarily from proceeds received for the sale, lease or refinancing of the real property connected with the corresponding Project. If the Borrower is unable to sell, lease or refinance the property, it is likely that the Borrower will be unable to make payments on its Loan, and you will not be entitled to, and will not receive any, payments under the LRO Agreement.

You may receive a different return on your investment than originally expected and could suffer a complete loss of your investment.

Investing in LROs is not without risk, and actual receipt of the expected yield in the time frame specified is not guaranteed. The LRO Agreement gives us sole discretion in applying amounts we receive from, or for the account of, the Borrower, with respect to the corresponding Loan, and we may make payments on the LROs out of any funds at our disposal. We may withdraw or abandon an offering of a particular series of LROs at any time without penalty prior to issuance. If we withdraw or abandon an offering of a particular series of LROs, you will not earn any return on the amounts you may have committed to purchase such LROs. By committing to one series of LROs that may be withdrawn or abandoned, you are forgoing the opportunity to use your money elsewhere. See “Risk Factors—Abandonment or withdrawal of an offering of a particular series of LROs prior to issuance will extinguish your ability to earn any return on the corresponding LROs you may purchase” below.

We may also prepay the LROs at any time without penalty, and (subject to the servicing standards set forth in the LRO Agreement) we have the power to modify the terms of the Loan in connection with our administration, servicing, collection and enforcement of the Loan, which could impact our obligation to make any payments to you and, in some instances, could result in the loss of your entire investment. For instance, the total amount of the LRO Payment owed to an investor would decrease if we sell the corresponding Loan below par, if, as a result of a negotiated modification, we agree to reduce the principal or stated interest of the corresponding Loan or if the Loan is deemed uncollectable and we decide to write it off. These, and similar collection and enforcement actions, could have the effect (without any further action on your part) of automatically decreasing the total amount of the LRO Payments owed to you and the expected timing of such payments.

Abandonment or withdrawal of an offering of a particular series of LROs prior to issuance will extinguish your ability to earn any return on the corresponding LROs you may purchase.

We may abandon or withdraw an offering of a particular series of LROs at any time without penalty prior to issuance. For example, we will abandon the offering of a series of LROs in the event the Borrower withdraws its funding request or in the event it is not fully subscribed by the end of the Offering Period. As of March 28, 2017, Groundfloor Finance had abandoned 62 offerings, covering over 26% of the total amount offered since the beginning of its LRO program. We believe this high incidence of abandonment was due primarily to the delay involved in our offering procedures that were in place prior to our loan advance program. See “Management’s Discussion and Analysis—LRO Program.”

We may also withdraw an offering of LROs in the event we are required to amend or update material information contained in this Offering Circular or any PQA related to such offering. As of March 28, 2017, Groundfloor Finance had withdrawn 13 offerings (all of which were subsequently re-qualified), covering over 4% of the total amount offered since the beginning of its LRO program. “Management’s Discussion and Analysis—LRO Program.”

If we abandon or withdraw an offering of a particular series of LROs, we will promptly release all funds committed to purchase that series, but you will not earn any interest or return on that amount. As a result, you will not have realized any benefit from the transaction and will have lost the opportunity to use your money elsewhere.

The LROs are unsecured special, limited obligations of GRE 1 only and are not secured by any collateral or guaranteed or insured by any third party.

The LROs are unsecured special, limited obligations of GRE 1 only and will not represent an obligation of Groundfloor Finance, the Borrower, its Principals or any other party except GRE 1. The LROs are not secured by any collateral and are not guaranteed or insured by any governmental agency or instrumentality or any third party.

The payment obligations of the Borrower are not guaranteed or insured by Groundfloor Finance or any third party, and, in the event of a default, you must rely on us or a third-party collection agency to pursue collection against the Borrower.

Payment of the amounts owed under the Loan and other obligations of the Borrower under the Loan Documents are not guaranteed or insured by any third party, including the Groundfloor Finance Borrower’s Principals, or backed by any governmental authority in any way. In the event of a default on such payment obligations, therefore, we may be limited in our ability to collect on the Borrower’s corresponding Loan Payments, and you will need to rely upon GRE 1, Groundfloor (acting as our agent) or a third-party collection agency to pursue collection against such Borrower. If the Borrower fails to make any Loan Payments on the Loan, you will not be entitled to, and will not receive, any LRO Payments.

Although the Borrower’s obligations under the Loan Documents are recourse, our remedy in the event of nonpayment may be limited to the value of the property securing the debt.

The Loan Documents with each Borrower will provide that such Borrower’s obligations under the Loan are recourse, which means that, in the event of nonpayment, we may collect any outstanding amount owed for the debt from the Borrower even after we have foreclosed on the collateral securing the debt. Even though the Loan obligations are recourse to the Borrower, in most cases, the Borrower’s assets are limited primarily to its interest in the related mortgaged property. Further, our remedies against the Borrower may be limited by state law in certain jurisdictions. For instance, some jurisdictions restrict a mortgagee’s right to seek a deficiency against the Borrower in the event the amount realized from a foreclosure sale is insufficient to repay the underlying debt, commonly referred to as anti-deficiency statutes. Moreover, in jurisdictions where deficiency actions are permitted, the burden of proof with respect to the adequacy of the amount realized from the foreclosure is often imposed on the party seeking the deficiency, such that deficiency actions may result in costly and protracted litigation. Further, some jurisdictions continue to apply the common-law doctrine of “election of remedies” pursuant to which a mortgagee must elect either to sue for recovery under the obligation or pursue foreclosure against the property subject to the mortgage lien. While such restrictions can frequently be waived as a matter of contract, the election of remedies doctrine represents a potential defense in certain circumstances. Other jurisdictions may implement a judicial foreclosure process, where we must first petition the courts of that jurisdiction in order to obtain title to the property. This process delays foreclosure efforts (by up to a year) and increases collection expenses, both of which increase the chance that investors may not be made whole should we need to foreclose on a particular property. Since the Principals are not obligors under the Loan Documents, we are limited in seeking recourse for non-payment to the borrowing entity itself. If the Borrower fails to make payments on the Loan and our remedy is limited to the value of the property securing the Loan, you may lose some, or all, of the expected return on the LROs.

The Company (and Groundfloor, as agent), in its capacity as Loan servicer, has the authority to waive or modify the terms of the Loan without consent of the LRO holders.

The Company (or Groundfloor, acting as its agent) is obligated to use commercially reasonable efforts to service and collect the Loans in accordance with industry standards and consistent with the terms of the LRO Agreement. Subject to that obligation and provided that the Company has reasonably and prudently determined that such action will not be materially adverse to the interests of the relevant LRO holders, the Company has the authority (without the consent of the relevant LRO holders) generally (and among other actions), to waive or modify the terms of any Loan, including to change the payment date, reduce the principal amount or the rate of interest, change the time or manner of making loan payments on the Loan or amend any other material term of the Loan, to enforce any security interest in the assets pledged to secure the Loan or sell all or any portion of its right, title and interest to any person under the Loan Documents, whether at, below or above par, and, if in the Company's business judgment the reasonable costs and expenses associated with further action to collect or enforce the terms of the Loan Documents will exceed the aggregate Loan Payments reasonably recoverable or realizable to write-off the Loan if it becomes uncollectable. For example, in the context of a Borrower default, the Company may negotiate to extend payment dates and could agree to a modified payment plan that could result in the LRO holder receiving less than the expected return at the Extended Payment Date.

If, in connection with its powers to administer, service, collect and enforce the terms of the Loan and the Loan Documents, the Company (or Groundfloor, as its agent) takes action that would materially impact the amount or timing of the LRO Payments owed to investors, it will promptly notify investors (by email) thereof and of the impact such action will or is expected to have on such investors' rights to receive LRO Payments. Furthermore, in circumstances other than Borrower default or prepayment, the modification of a term of a Loan (e.g., a reduction in the interest rate charged on the Loan) could be deemed to be a material modification of the terms of the corresponding series of LROs. In such instance, it is possible that the modified series of LROs would constitute a new security under the Securities Act and under applicable State securities laws. Before implementing any modification to the terms of a Loan (other than in circumstances involving Borrower default or prepayment) that would cause the corresponding series of LROs (as modified) to constitute a new security, the Company will be required to either register the offer of the modified LRO under Section 5 of the Securities Act and under applicable State securities laws or find an exemption from such registration requirements. See "General Terms of the LROs—Administration, Service, Collection, and Enforcement of Loan Documents" and "—Collection Proceeds, Costs, and Expenses."

Loans that are advanced may involve additional risks.

In some situations, we, Groundfloor Finance, or a subsidiary of Groundfloor Finance may elect to originate and advance funds for a Loan prior to GRE 1 offering the corresponding series of LROs to the public, which could involve additional risks. Although advances are typically funded from one or more lines of credit or borrowing arrangements entered into by Groundfloor Finance or one of its subsidiaries, if we elect to do so from our own operating capital, that would have the effect of reducing the amount of cash we have available for other business expenditures until the advance is repaid. The same would be the case in the event Groundfloor Finance elected to use its own operating capital to fund advances. In addition, we may be required (either directly as GRE 1 or indirectly through Groundfloor Finance or through one of its subsidiaries) to continue to hold and service the advanced Loans in the event we are unable to qualify the corresponding series of LROs or if the Offering of such LROs is not fully subscribed and abandoned. Furthermore, the borrowing arrangements that may be used to make the advances will require the principal to be repaid within a short period of time as well as periodic interest payments. This may negatively impact the cash flow and cash position of Groundfloor Finance, particularly if GRE 1 is not able to issue and sell the corresponding LROs on a timely basis, increasing the risk to the overall business of GRE 1, Groundfloor Finance and its subsidiaries.

In addition, the Borrower may begin work on the Project immediately and by the time the corresponding LROs are sold, substantial work may have been completed. This would effectively reduce the amount of time the LROs may be held, as the Borrower is now closer to its proposed exit than when LROs were first offered and therefore may be able to prepay the Loan. If the Borrower prepays the Loan as a result, you will receive a lower yield than expected on the LROs purchased.

If you decide to invest through the Groundfloor Platform and concentrate your investment in a single series of LROs, your entire return will depend on the performance of a single Loan.

If you decide to invest through the Groundfloor Platform and concentrate your investment in one Project, your entire return will depend on the performance of that single Project. For example, if you plan to purchase \$400 of LROs and choose to invest the entire \$400 in a single Project instead of investing \$10 in 40 Projects corresponding to Loans of 40 different Borrowers, your entire \$400 investment will depend on the performance of a single Loan. Failing to diversify your investment increases the risk of losing your entire investment due to a single Borrower's default or a small number of Borrower defaults. Diversification, however, will not eliminate the risk that you may lose some, or all, of the expected yield on the LROs.

An investment in a LRO issued by GRE 1 may be subject to risks that are different from, and potentially greater than, an investment in a LRO issued by Groundfloor Finance.

Prior to the qualification of this Offering Circular, Groundfloor Finance, GRE 1's sole member and manager, offered and sold LROs under a separate offering qualified by the SEC and various states. Pursuant to GRE 1's operating agreement, Groundfloor Finance has the authority to manage the business of GRE 1, including the authority to distribute its cash and other assets to Groundfloor Finance at the times and in the amounts as it may from time to time direct. As a result of this relationship, particularly the control Groundfloor Finance has over GRE 1's operations, an investment in a LRO issued by GRE 1 may be subject to risks that are different from, and potentially greater than, an investment in a LRO issued by Groundfloor Finance.

We may not set appropriate interest rates for the Loans.

If we set interest rates for the Loans too low, investors may not be compensated appropriately for the level of risk that they are assuming in purchasing a LRO, while setting the interest rate too high may increase the risk of non-payment on a Loan. In either case, failure to set rates appropriately may cause the expected return on the LROs not to be commensurate with the risks investors have assumed in acquiring such LROs.

If GRE 1, Groundfloor Finance, or one of its subsidiaries advances a Loan prior to the sale of a corresponding series of LROs, some (or all) of the proceeds from the subsequent sales of such series of LROs will be used to repay the amount of the advance.

GRE 1, Groundfloor Finance, or a subsidiary of Groundfloor Finance may advance Loans to Borrowers prior to the qualification or sale of the series of LROs that correspond to such Loans. The funds for such an advance may be from one or more lines of credit or borrowing arrangements entered into by Groundfloor Finance or one of its subsidiaries, but there may be circumstances that we, Groundfloor Finance or one of its subsidiaries could utilize operating capital for these purposes. For any Loans advanced prior to the qualification and sale of a corresponding series of LROs, some (or all) of the proceeds from the sale of subsequently qualified and sold LROs corresponding to such Loans will be used to repay the amount of the advance.

Borrowers are generally permitted to prepay Loan obligations at any time without penalty. Borrower prepayments will extinguish or limit your ability to earn expected returns on the corresponding LRO.

Prepayment by a Borrower occurs when a Borrower decides to pay some or all of the principal amount on the Loan earlier than originally scheduled. With all of the Projects financed on the Groundfloor Platform, the Borrower may prepay all or a portion of the remaining principal amount at any time without penalty. Upon a prepayment of the entire remaining unpaid principal amount and accrued interest on the Loan, within five business days you will receive an amount equal to your pro rata share of such prepayment and your LRO will automatically terminate (and the corresponding LRO shall be of no further force or effect) without any further payments being made to you. If prevailing commercial loan rates decline in relation to the LRO's effective interest rate, the Borrower may choose to prepay the Loan with lower-cost funds. If the Borrower prepays a portion of the remaining unpaid principal balance on the Loan, the term for final payment of the Loan will not change, but you will not earn the Accrued Return on the prepaid portion, which would reduce the expected yield on the LRO. In addition, you may not be able to find a similar rate of return on another investment at the time at which the Loan is prepaid.

The LROs will not be listed on any securities exchange, and no liquid market for the LROs is expected to develop.

The LROs will not be listed on any securities exchange or interdealer quotation system. There is no trading market for the LROs, and we do not expect that such a trading market will develop in the foreseeable future, nor do we intend to offer any features on the Groundfloor Platform to facilitate or accommodate such trading. You do not have any rights of redemption or repurchase rights with respect to the LROs. Therefore, any investment in the LROs will be highly illiquid, and investors in the LROs may not be able to sell or otherwise dispose of their LROs in the open market. Accordingly, you should be prepared to hold the LROs you purchase until our payment obligations thereunder terminate.

The Investor Agreement and the LRO Agreement limit your rights in some important respects.

When you make an investment through the Groundfloor Platform, you are required to agree to the terms of GRE 1's standard Investor Agreement, which sets forth your principal rights and obligations as an investor in the LROs we issue (the "Investor Agreement") and to agree to the terms of a LRO Agreement, which sets forth the specific terms of the series of LROs you are committing to purchase. The Investor Agreement and the LRO Agreement limit the investor's right to collect or attempt to collect from any Borrower or its Principals, directly or through any third party, any amount owing under any of the investor's LROs or on any of the Loan Payments that correspond to the investor's LROs.

In addition, under the Investor Agreement and LRO Agreement, we may require that any claims against us, including without limitation, claims alleging violations of federal securities laws by us or any of our officers or directors and claims other than in connection with this offering, be resolved through binding arbitration rather than in the courts. Notwithstanding the foregoing sentence, you may elect to opt out of the arbitration provision for all purposes by sending an arbitration opt out notice to the Company in accordance with the terms and conditions set forth in Section 39(b) of the Investor Agreement and Section 12(b) of the LRO Agreement. If you do not opt out of binding arbitration, Section 39 of the Investor Agreement, which is incorporated by reference in Section 12(a) of the Form of LRO Agreement, provides, among other things, that (i) arbitration is final and binding on the parties; (ii) the parties are waiving their right to seek remedies in courts, including the right to jury trial; (iii) pre-arbitration discovery is generally more limited and potentially differs in form and scope from court proceedings; (iv) an award by an arbitrator is not required to include factual findings or legal reasoning, and your right to appeal or to seek modification of a ruling by the arbitrator is strictly limited; and (v) the arbitrator (or three arbitrator panel, if applicable) may include a minority of persons engaged in the securities industry. As a result, the arbitration process may be less favorable to investors than court proceedings and may limit your right to engage in discovery proceedings or to appeal an adverse decision. These provisions may have the

effect of discouraging lawsuits against us and our directors and officers. Your agreement to the arbitration provisions in the Agreements will not waive the Company's compliance with the federal securities laws and the rules and regulations promulgated thereunder.

The Company believes that the arbitration provisions in the Agreements are enforceable under federal and state law. The Federal Arbitration Act (“FAA”) is an act of Congress that provides for judicial facilitation of dispute resolution through arbitration and embodies a national policy favoring arbitration, providing that a written contractual provision evidencing a transaction involving interstate commerce to arbitrate a controversy “shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.” Further, the United States Supreme Court has interpreted the FAA as creating a uniform body of federal substantive law regulating the enforceability of agreements to arbitrate that applies to all contracts involving interstate commerce in both state and federal court. The arbitration provision in the Investor Agreement specifically states that it is made pursuant to a transaction involving interstate commerce and shall be governed by and enforceable under the FAA.

In the event that enforceability issues arise under state law, the Company maintains its belief that the arbitration clause will be upheld. In *AT&T Mobility LLC v. Concepcion*, 131 S. Ct. 1740 (2011), the United State Supreme Court recognized that in order to accomplish the general purpose of the FAA to promote efficient streamlined procedures for resolving disputes, federal law has developed a preference for enforcing arbitration agreements according to their terms. Consistent with this preference, the Court has held that state laws discriminating against arbitration are preempted by the FAA because such rules stand as an obstacle to the FAA’s objectives. Further, the FAA is presumed to preempt the state law selected in a general choice-of-law clause unless the contract expressly evidences the parties’ intent that state arbitration law applies in place of or in addition to the FAA. As cited above, the arbitration provision in the Investor Agreement clearly sets forth the parties’ intent that the FAA should apply rather than state law.

You also waive your right to a jury trial under the Investor Agreement and LRO Agreement. Accordingly, if you bring a claim against the Company in connection with matters arising under the Investor Agreement or LRO Agreement, including claims under federal securities laws, you may not be entitled to a jury trial with respect to such claims, which may have the effect of limiting and discouraging lawsuits against us and our directors and officers. If a lawsuit is brought against us under the Investor Agreement or LRO Agreement, it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different outcomes than a trial by jury would have had, including results that could be less favorable to the plaintiff(s) in any such action. It is advisable that you consult legal counsel regarding the jury waiver provision before entering into the Investor Agreement and LRO Agreement.

While the Company believes that a contractual pre-dispute jury trial waiver is generally enforceable, the enforceability of the jury trial waiver is not free from doubt. To the Company’s knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the federal securities laws has not been finally adjudicated by the United States Supreme Court. With respect to enforceability under Georgia state law, the Company acknowledges that the state courts of Georgia, which have jurisdiction over state law matters arising under the Investor Agreement and the LRO Agreement, have upheld the minority position that contractual pre-dispute jury trial waivers are not enforceable. If the Company opposed a jury trial demand based on the waiver, the court would determine whether the waiver was enforceable based on the facts and circumstances of that case in accordance with the applicable state and federal law. In determining whether to enforce a contractual pre-dispute jury trial waiver provision, courts will generally consider whether a party knowingly, intelligently and voluntarily waived the right to a jury trial. We believe that this is the case with respect to the Investor Agreement and LRO Agreement.

Nevertheless, if this jury trial waiver provision is not permitted by applicable law, an action could proceed under the terms of the Investor Agreement and LRO Agreement with a jury trial if you have not elected to opt out with respect to binding arbitration as set forth in Section 39 of the Investor Agreement and Section 12 of the LRO Agreement. No condition, stipulation or provision of the Investor Agreement or the LRO Agreement serves as a waiver by any Investor or LRO holder of the Company’s compliance with any substantive provision of the U.S. federal securities laws and the rules and regulations promulgated thereunder.

Furthermore, the investor acknowledges in the Investor Agreement that the LROs are intended to be debt instruments issued by the Company that have original issue discount (“OID”) for U.S. federal income tax purposes and agrees not to take any position inconsistent with that treatment of the LROs for tax, accounting, or other purposes, unless required by law.

Additionally, by entering into the LRO Agreement, the investor expressly waives and releases, as a condition of and as part of the consideration for the issuance of the LRO, any recourse under or upon any obligation, covenant or agreement contained in the LRO Agreement, or because of any obligations evidenced therein, against any incorporator, or against any past, present or future shareholder, officer or director, as such, of the Company, either directly or through the Company, under any rule of law, statute (other than applicable federal securities laws) or constitutional provision or by the enforcement of any assessment or penalty or otherwise. This provision has the effect of limiting the available parties against which an investor may seek recourse in connection with the Company’s obligations under the LRO Agreement.

Pursuant to Section 40 of the Investor Agreement and Section 12(b) of the Form of LRO Agreement (collectively, the “Agreements”), in connection with your purchase of the LROs, to the extent permitted by law, you waive your right to a jury trial in any litigation relating to the Agreements, including the purchase of the LROs.

When you purchase the LROs, you are required to agree to the terms of the Investor Agreement and the Form of LRO Agreement. Among other things, both agreements provide that you waive your right to a jury trial in any litigation relating to each agreement and your purchase of the LROs, including claims under the federal securities laws. You will have the right to litigate claims, including claims under the federal securities laws through a court before a judge, but you will not have that right if any party elects arbitration pursuant to the terms of the Agreements unless you opt out as provided in Section 39(b) of the Investor Agreement and Section 12(b) of the LRO Agreement. Neither your waiver of jury trial nor your agreement to the arbitration provision shall be deemed to waive the Company’s compliance with the federal securities laws and the rules and regulations promulgated thereunder. Please refer to the risk factor “The Investor Agreement and the LRO Agreement limit your rights in some important respects” for more information regarding the jury trial waiver provision contained in the Investor Agreement and the Form of LRO Agreement.

You are required to indemnify us for losses that may arise out of representations made, and covenants given, to us in the documents you enter into through the Groundfloor Platform.

By executing the Investor Agreement, you agree to indemnify, defend, protect and hold harmless the Company, its parent company, Groundfloor Finance, Inc., any affiliates, any subsidiaries and their respective officers, directors, managers, members, shareholders, employees and agents (the “Groundfloor Parties”) against all claims, liabilities, actions, costs, damages, losses, demands and expenses of every kind, known or unknown, contingent or otherwise (including, but not limited to, any and all expenses incurred in investigating, preparing or defending against any litigation commenced or threatened) (collectively, the “Losses”), based upon or arising out of (1) any material breach of any obligation you undertake in the Investor Agreement or in any other Investment Document, including but not limited to your obligation to comply with applicable laws; or (2) your acts and omissions, and your representations (and those of your employees, agents or representatives) relating to the Groundfloor Parties. Except with respect to Losses based upon or arising out of any inaccuracy in or breach of certain fundamental representations you make to us (as set forth in Section 8 of the Investor Agreement) or of your covenant not to violate applicable laws (as contained in Section 9(e) of the Investor Agreement), your liability to us is limited to an amount equal to the aggregate LRO Payments due under any LROs you hold. We may, among other remedies we can pursue, collect against Losses by off-setting amounts owed to you as LRO Payments. However, to the extent that any indemnification provision in the Investor Agreement purports to include indemnification for liabilities arising under the Securities Act, you should be aware that in the SEC’s opinion this indemnification provision would be contrary to public policy and therefore unenforceable.

If the offering of a series of LROs is not fully subscribed with irrevocable funding commitments, you will not be issued any of the securities you have committed to purchase and will not realize any benefit from the investment transaction.

There is no guarantee that the corresponding Loan in which you commit to purchase LROs will actually be funded. If a sufficient number of investors do not invest in a series of LROs, the offering with respect to those particular securities will not be closed and you will not be issued your securities. Your funds, intended for investment, will be released and made available in your funding account, without interest, even though you may otherwise wish to invest, and you will not have realized any benefit from the transaction.

Certain securities qualification exemptions for secondary trading in California will not be available to investors with respect to the LROs.

We have been advised by the California Department of Corporations that the exemptions for secondary trading in California available under California Corporations Code Section 25104(h) will be withheld with respect to the LROs, although there may be other exemptions to cover private sales in California of a bona fide owner for his own account without advertising and without being effected by or through a broker-dealer in a public offering. **Prospective investors are urged to consult their own legal advisors licensed to practice law in California with respect to the transfer of, or secondary trading in, the LROs.**

If we fail to fully subscribe an offering of a series of LROs corresponding to a Loan that has been advanced, the advanced Loan will remain a lending obligation of Groundfloor Finance (or its subsidiary).

If we fail to fully subscribe an offering of a series of LROs corresponding to a Loan that has been advanced, Groundfloor Finance will still be responsible for servicing and otherwise managing the underlying Loan. We, Groundfloor Finance (or the affiliated entity that originated the Loan) may need to use cash on hand or raise additional capital to continue to service the Loan or to repay any amounts borrowed under its borrowings to finance the advance. This may limit the amount of capital Groundfloor Finance has available to fund its operations.

The activities of Groundfloor Finance in connection with the Offering may result in the classification of Groundfloor Finance by the Commission or a court of competent jurisdiction as a statutory “underwriter” under the Securities Act

Section 2(a)(11) of the Securities Act provides that an “underwriter” is as “any person who has purchased from an issuer with a view to, or offers or sells for an issuer in connection with, the distribution of any security, or participates, or has a direct or indirect participation in any such undertaking, or participates or has a participation in the direct or indirect underwriting of any such undertaking.” The activities of Groundfloor Finance as the sole member and manager of GRE 1 in connection with the offering, which among other things, include the use of the Groundfloor Finance website and social media profiles by GRE 1 for marketing initiatives and the provision of Groundfloor Finance personnel to GRE 1, may result in the classification of Groundfloor Finance by the Commission as a statutory “underwriter” of the LROs pursuant to the federal securities laws. Such classification would require Groundfloor Finance to register with the Commission pursuant to the Securities Act. Groundfloor Finance does not intend to register with the Commission as a broker-dealer nor does GRE 1 intend to engage a third-party broker-dealer at this time in order to act in the capacity of an accommodating broker-dealer and to process investors in connection with the Offering. It is possible that in the future, the Commission or a court of competent jurisdiction may determine that Groundfloor Finance is a statutory “underwriter” under the federal securities laws and require registration under the Securities Act.

Risks Related to the Borrower, its Principal(s) and the Project

Real estate projects involve considerable risk, which may affect the Borrower’s ability to make payments under its Loan and our ability to collect Loan Payments on a timely basis.

Real estate development projects are inherently risky, and the risks they involve may affect the Borrower’s ability to make payments under its Loan. The risks involved in real estate development projects include the following:

- changes in the general economic climate and market conditions;
- complications involving the renovation or redevelopment of the real estate property connected to the Project;
- limited availability of mortgage funds or fluctuations in interest rates which may render the sale and refinancing of the real estate property corresponding to the Project difficult;
- unanticipated increases in real estate taxes and other operating expenses;
- environmental considerations;
- zoning laws and other governmental rules and policies; and
- uninsured losses including possible acts of terrorism or natural disasters.

The risks associated with a particular investment will also vary depending on the type of Loan being financed and the terms negotiated with Borrowers. For example:

- With Loans involving renovations, project completion may be delayed because the necessary renovations may be more extensive than first anticipated; as work progresses, more of the structure is opened up which may reveal previously unknowable defects or problems.
- With new construction Loans, a fundamental default early in the term could be more detrimental to recovery, since it would leave us with a lien (on land and an incomplete structure) that could be worth less than the amount needed to make investors whole.
- Where acquisition (either of land or of an existing structure) is part of use of proceeds the acquisition may fall through, causing the Loan to be abandoned before closing or to be paid off early, as no principal is drawn down after closing. In addition, the purchase price of the property may increase at the time of acquisition, decreasing the remaining funds available from our Loan which could impact the Borrower’s ability to complete the associated renovations or construction as contemplated.
- Permitting delays could impede a Borrower’s ability to timely repay Loans involving renovations or construction.
- Borrowers may use part of the Loan Proceeds to repay an existing loan used to acquire the property. There may be delays in the original lender releasing the property from any security interest related to the earlier loan in order for us to assume the first lien position after closing the loan transaction.

- Borrowers may use part of the Loan Proceeds to offset the amount of cash or equity they otherwise would have in the project. This type of cash out refinancing may be involved in various types of Loans we originate.

- Borrowers may be advanced all or part of the Loan Proceeds before the corresponding LROs are sold. In this case, the Borrower may begin work on the Project immediately and by the time the corresponding LROs are sold, substantial work may have been completed. This would effectively reduce the amount of time the LROs may be held, as the Borrower is now closer to its proposed exit than when LROs were first offered and therefore may be able to prepay the Loan.
- There can be any number of issues with the title to a property. For example, the property may be acquired through a quit claim deed or a limited warranty deed where there can be no assurances that the Borrower owns the property in question. If the Borrower does not own the property and we proceed with originating the Loan, our lien will likely be unenforceable. Similarly, although we confirm our senior lien position on properties by conducting a title search and obtaining title insurance, challenges to the enforceability of our senior position or title defects may nevertheless arise. We attempt to mitigate these problems by requiring a clean title search and title insurance before originating any Loan. However, title defects may still be present. Such defects could also result in a determination that we do not have an enforceable lien on the property. Resolution of these matters could delay our ability to foreclose on the property or pursue other collection remedies against the Borrower, which could result in the loss of your investment.

The success of the Project is dependent on the performance of third parties, including the Borrower and its Principal(s), over which we have no control.

We will issue a commercial loan to the Borrower to fund the Project. The Borrower owns and controls the Project and is responsible for various management functions that are essential to the success of the Project. The Principal(s) of that borrowing entity control and operate it. Poor management on the part of the Borrower, or its Principals, could adversely affect the financial performance of the Project or expose the Project to unanticipated operating risks, which could reduce the Project cash flow and adversely affect the Borrower's ability to repay the Loan.

We have limited experience in developing real estate projects.

If the Borrower is unable to repay its obligations under the Loan, we may foreclose on the real estate property. Although we will seek out purchasers for the property, we may have to take an active role in the management of the Project. Prospective investors should consider that we and very few members of our management have previously managed real estate development projects. No assurances can be given that we can operate the Project profitably.

Credit information may be inaccurate or may not accurately reflect the creditworthiness of the Borrower or its Principals, which may cause you to lose part or all of the Purchase Amount you pay for a LRO.

In the course of its underwriting, Groundfloor Finance obtains credit information about the Principals of the Borrower from consumer reporting agencies, such as TransUnion, Experian or Equifax. A credit score assigned to a Principal may not reflect the actual creditworthiness of the Borrower or its Principals. (Although the Principal(s) are not personally liable for making payments under the Loan, Groundfloor Finance believes his or her FICO credit score is a relevant factor in understanding the individual practices regarding debt management of the persons who will ultimately be responsible for managing the Project and servicing the debt.) In addition, the information obtained from the credit report is not verified and the credit score of the Principal may be based on outdated, incomplete or inaccurate consumer reporting data. Additionally, there is a risk that, after the underwriting team has completed our credit review, the Principal may have:

- become delinquent in the payment of or defaulted under an outstanding obligation;
- taken on additional debt; or
- sustained other adverse financial events.

Inaccuracies in the credit information obtained or subsequent events that materially impact the ability to repay the Loan or reduce creditworthiness may increase the risk that the Borrower will default on its Loan, which will increase the risk that the LROs will not be repaid in full.

Information supplied by Borrowers, including information on the Project Summaries, may be inaccurate or intentionally false.

Borrowers supply a variety of information that is included in this Offering Circular and the Project Summaries. Much of the information provided by Borrowers during the application and underwriting process is not independently verified, and, although Borrowers represent and warrant in the Loan Agreement as to the accuracy of such information, it may nevertheless be inaccurate or incomplete. For example, there is no independent verification of the information about the financial condition and past business experience of the Borrower and business experience of its Principals, including much of the data contained in the Borrower Summary (Box H) of the Project Summary, the proposed costs of a given construction project or the capabilities, and the experience of any contractors or sub-contractors. Further, the information the Borrowers supply may be inaccurate or intentionally false. Borrowers may misrepresent their intentions for the use of Loan Proceeds, and, if such misrepresentations negatively impact the Borrower's ability to make its payments under the Loan, we may not be able to make corresponding payments under the terms of the LROs. See "Description of the Business of GRE 1 and of Groundfloor Finance—Our Loans to Borrowers— Due Diligence and Authentication" for the commercially reasonable efforts used to verify or authenticate certain information provided in the course of the application and underwriting procedures and representations made by the Borrowers.

Other than as discussed below in “Description of the Business of GRE 1 and of Groundfloor Finance—Our Loans to Borrowers— Due Diligence and Authentication”, there is no independent verification of the information provided to us by Borrowers, and such information may be inaccurate or incomplete. If you rely on false, misleading or unverified information supplied by Borrowers in deciding to purchase the LROs, you may lose part or the entire Purchase Amount you pay for the LROs and our reputation may be harmed. Project Summaries and Borrower information available on the Groundfloor Platform and in this Offering Circular with respect to the LROs being offered hereby is subject to Rule 10b-5 of the Exchange Act and to the liability provisions of the Securities Act. Potential investors should note that on occasion courts have taken the position that plaintiffs who have failed to exercise adequate caution in analyzing the risks associated with reliance upon unverified information may be precluded from asserting a claim for misrepresentation. Although we do not believe this would impact our overall liability under Rule 10b-5 of the Exchange Act and the liability provisions of the Securities Act for information provided to you in connection with this Offering, we advise you that your recourse may be limited in the event information that is self-reported and not independently verified turns out to be false or misleading.

We have an incentive to take on as many Projects as possible, which could impair our ability to devote adequate attention and resources to collection of outstanding Loan Payments.

All of GRE 1’s revenues and a significant portion of Groundfloor Finance’s revenues are derived from origination and servicing fees generated through financing of Projects. As a result, we and Groundfloor Finance each have an incentive to finance as many Projects as possible to maximize the amount of origination and servicing fees generated. Increased Project volume increases the demands on management resources and Groundfloor Finance’s ability to devote adequate attention and resources to the collection of outstanding Loan Payments. In the event that we (either alone or with Groundfloor Finance and its subsidiaries) take on Project volumes that exceed Groundfloor Finance’s ability to service outstanding Loans, our ability to make timely payments on the LROs will suffer.

We do not take any specific actions to monitor how funds are spent after they have been disbursed to the Borrowers.

When we finance a Project, our primary assurance that the financing proceeds will be properly spent by the Borrower is the contractual covenants agreed to by the Borrower and the business history and reputation of the Borrower. We typically implement a Draw process for Loans (and always do so for Loans in excess of \$50,000 unless an amount greater than \$50,000 is needed for the acquisition of a property), which mitigates some risk of mishandling of funds by the Borrower. However, we do not and cannot control how the Loan Proceeds will be used by Borrowers. Should the proceeds of a financing be diverted improperly, the Project might become insolvent, which could cause the purchasers of the corresponding LROs to lose their entire investment.

We limited experience originating, closing, and servicing loans in Canada. We have limited experience foreclosing on Canadian properties.

Though we have over four years experience in the United States, we have limited experience originating, closing, and servicing loans in Canada. Loans originated in Canada take substantially the same form as loans originated in the United States, however, the processes and procedures of effecting those loans may differ materially from the United States. Canada has different laws, rules, and regulations for foreclosing on properties or otherwise managing credit risks, which may impact the outcome of loan workouts.

Risks Related to the Company, to Groundfloor, and the Groundfloor Platform

We are also subject to other risks and uncertainties related to engaging in a public offering that may affect our business.

GRE 1 and Groundfloor Finance (as well as its other subsidiaries that many offer LROs pursuant to Regulation A) are subject to additional risks and uncertainties in connection with engaging in a public offering of the LROs. These risks and uncertainties include:

- the potential for increased scrutiny by federal and state regulatory agencies;

- the greater likelihood of facing civil liability claims for alleged violations of federal and state securities laws;
- the increasing costs connected with managing a growing business and expanding portfolio of Loans;
- the impact of greater media attention, including the possibility of negative commentary of Groundfloor's business model by other market participants such as traditional financial institutions;
- the costs of qualifying our offerings with federal and state regulators;
- the time commitment for management to qualify our offerings, which takes focus away from operating the business;
- navigating complex and evolving regulatory and competitive environments;
- increasing the number of investors utilizing the Groundfloor Platform;
- increasing the volume of Loans facilitated through the Groundfloor Platform and fees received from Borrowers;
- continuing to develop, maintain and scale the Groundfloor Platform;
- effectively using limited personnel and technology resources;
- effectively maintaining and scaling Groundfloor's financial and risk management controls and procedures;
- maintaining the security of the Groundfloor Platform and the confidentiality of the information provided and utilized across the Groundfloor Platform; and
- attracting, integrating and retaining an appropriate number of qualified employees.

Groundfloor Finance will need to raise substantial additional capital to fund future operations, and, if Groundfloor Finance fails to obtain additional funding, GRE 1 and Groundfloor Finance may be unable to continue operations.

At this early stage in its development, Groundfloor has funded substantially all of its operations with proceeds from private financings from individual investors and venture capital firms. We rely on Groundfloor Finance to operate the Groundfloor Platform, facilitate due diligence and underwriting reviews, coordinate payment to and from investors and developers through the use of various funding accounts, manage Loan advances and to administer, service and collect on the Loans we fund through the offer and sale of LROs. As manager, Groundfloor Finance is also responsible for our day to day operations. To date, Groundfloor Finance has raised approximately \$9.1 million through private sales of convertible debt and preferred stock. To continue the development of its business, Groundfloor Finance will require substantial additional funds. To meet its financing requirements in the future, Groundfloor Finance may raise funds through equity offerings, debt financings or strategic alliances. Raising additional funds may involve agreements or covenants that restrict Groundfloor Finance's business activities and options. Additional funding may not be available to Groundfloor Finance on favorable terms, or at all. If Groundfloor Finance is unable to obtain additional funds, it and GRE 1 may be forced to reduce or terminate our operations.

Groundfloor Finance has entered into material transactions with our promoters.

Since inception, Groundfloor Finance has entered into certain material transactions involving its officers, directors and principal shareholders (collectively, the "Promoters"). For instance, certain affiliates and family members of the directors of Groundfloor Finance have participated in the Series Seed Financing, the Bridge Financing, and the Series A Financing (each as defined below). Groundfloor Finance has adopted a policy that a majority of the disinterested Independent Directors of Groundfloor Finance (as defined below) must approve any loan to or on behalf of, or other material affiliated transaction involving, its Promoters. However, Groundfloor Finance has lacked sufficient disinterested Independent Directors to approve the prior material affiliated transactions listed above at the time each was consummated and may choose to enter into transactions in the future for which it lacks sufficient disinterested Independent Directors. See "Interest of Management and Others in Certain Transactions" and "Transactions with Promoters" below.

Our affiliates may purchase LROs on the Groundfloor Platform.

The executive officers, directors and 10% stockholders of Groundfloor Finance may have purchased LROs from time to time in the past, and may do so in the future. Purchase of LROs by these affiliates is made simultaneously with and on the same terms and conditions as those provided to other investors in the same series of LROs. Their right to receive LRO Payments and other obligations are the same as all holders of the same series of LROs. These purchases count towards the Purchase Amount required to fully subscribe a given series of LROs. However, these purchases are made for the personal investment accounts of these individuals and not for resale, and are not directed by Groundfloor, GRE 1, or any of the Promoters (of either company), nor are the purchases made for purposes of ensuring the offering is fully subscribed. See “Interest of Management and Others in Certain Transactions—Purchase of LROs by Related Parties.” By virtue of their positions with the Company, there is the risk that such purchases could be based on the use of non-public information not available to unaffiliated investors.

This financing model is a new lending method and the Groundfloor Platform has a limited operating history. Borrowers may not view or treat their obligations to Groundfloor and its affiliates (including the Company) as having the same significance as loans from traditional lending sources, such as bank loans, and the Loans may have a higher risk of default than loans of Borrowers with similar credit scores to other lenders.

The expected investment return on the LROs depends on Borrowers making payments under their Loans in a timely and complete manner. Borrowers may not view our lending obligations originated on the Groundfloor Platform as having the same significance as other credit obligations arising under more traditional circumstances, such as loans from banks or other commercial financial institutions. If a Borrower neglects, or chooses not to meet, its payment obligations upon which a LRO Payment is dependent, you may not be able to recover any portion of your investment in a LRO.

If we or Groundfloor Finance were to become subject to a bankruptcy or similar proceeding, the rights of the holders of the LROs could be uncertain, and the recovery, if any, of a holder of a LRO may be substantially delayed and substantially less than the amounts due and to become due on the LRO.

In the event of a bankruptcy or a similar proceeding by us or Groundfloor Finance, the rights of investors to continue receiving payments on the LROs could be subject to the following risks and uncertainties:

- Borrowers may delay payments to us on account of Loans because of the uncertainties occasioned by a bankruptcy or similar proceeding of the Company or Groundfloor, even if the Borrowers have no legal right to do so, and such delay could reduce, at least for a time, the funds that might otherwise be available to pay the LROs corresponding to those Loans.
- In a bankruptcy or similar proceeding of the Company, our obligation to continue making payments on the LROs would likely be suspended or delayed even if the funds to make such payments were available. Because a bankruptcy or similar proceeding may take months or years to complete, even if the suspended payments were resumed, the suspension might effectively reduce the value of any recovery that a holder of a LRO might receive by the time such recovery occurs.
- The LROs are unsecured, and investors do not have a security interest in the corresponding Loan Payments. Accordingly, the holders of the LROs may be treated as general unsecured creditors and thus be required to share the proceeds of Loan Payments with our other general unsecured creditors. If such sharing of proceeds is deemed appropriate, those proceeds that are either held by us in the clearing account at the time of the bankruptcy or similar proceeding of the Company, or not yet received by us from Borrowers at the time of the commencement of the bankruptcy or similar proceeding, may be at greater risk than those proceeds that are already held by us in the investor account at the time of the bankruptcy or similar proceeding. To the extent that proceeds of the corresponding member loan would be shared with other creditors of the Company, any secured or priority rights of such other creditors may cause the proceeds to be distributed to such other creditors before, or ratably with, any distribution made to you on your LRO.
- In a bankruptcy or similar proceeding of the Company, it is possible that a holder of a LRO could be deemed to have a right of payment only from proceeds of the corresponding Loan and not from any other assets of the Company, in which case the holder of the LRO may not be entitled to share the proceeds of such other assets of the Company with other creditors of the Company, whether or not, as described above, such other creditors would be entitled to share in the proceeds of the Loan corresponding to the LRO. Alternatively, it is possible that a holder of a LRO could be deemed to have a right of payment from both the Loan corresponding to the LRO and from some or all other assets of the Company, in which case the holder of the LRO may be entitled to share the proceeds of such other assets of the Company with other creditors of the Company, whether or not, as described above, such other creditors would be entitled to share in the proceeds of the Loan corresponding to the LRO. To the extent that proceeds of such other assets would be shared with other creditors of the Company, any secured or priority rights of such other creditors may cause the proceeds to be distributed to such other creditors before, or ratably with, any distribution made to you on your LRO.

- If a Borrower has made payments under its Loan to us before the bankruptcy proceedings are commenced and those funds are held in our clearing account after the commencement of bankruptcy proceedings and have not been used by us to make payments on the LROs, there can be no assurance that we will be able to use such funds to make payments on the LROs.
- If a bankruptcy proceeding commences after your commitment becomes irrevocable (and funds to purchase the LROs in your Groundfloor account are set aside for closing), you may not be able to obtain a return of the funds you have committed even if the offering proceeds have not yet been used to purchase the LROs or to fund the corresponding Loan.
- In a bankruptcy or similar proceeding of the Company, our ability to transfer servicing obligations to a back-up servicer may be limited and subject to the approval of the bankruptcy court or other presiding authority. The bankruptcy process may delay or prevent the implementation of back-up servicing, which may impair the collection of Loan Payments to the detriment of the LROs. As Groundfloor Finance acts as our agent in connection with certain servicing functions, in the event of a Groundfloor Finance bankruptcy or similar proceeding, Groundfloor Finance's ability to perform those functions may be halted or limited and subject to the approval of the bankruptcy court or other presiding authority. See the risk titled "If we or Groundfloor Finance were to cease operations or enter into bankruptcy proceedings, the servicing of the Loans and the LROs would be interrupted or may halt altogether" below for more information on these risks.

If we or Groundfloor Finance were to cease operations or enter into bankruptcy proceedings, the servicing of the Loans and the LROs would be interrupted or may halt altogether.

If we or Groundfloor Finance were to become subject to bankruptcy or similar proceedings or if we or Groundfloor Finance ceased operations, the Company, or a bankruptcy trustee on our behalf, might be required to find other ways to service the Loans and the LROs. Such alternatives could result in delays in the disbursement of payments on your LROs or could require payment of significant fees to another company to service the Loans and the LROs. Since we have not entered into any back-up servicing agreements, if we or Groundfloor were to cease operations or otherwise become unable to service the Loans and LROs without transferring such Loans to another entity, the operation of the Groundfloor Platform and the servicing of the Loans and LROs would be interrupted and may halt altogether unless another way to service the Loans and LROs on behalf of investors was secured.

If we or Groundfloor Finance were to file under Chapter 11 of the Bankruptcy Code, it is possible that we would be able to continue to service the Loans during reorganization. If, on the other hand, we were to file under Chapter 7 of the Bankruptcy Code, or if an attempted reorganization under Chapter 11 should fail and the bankruptcy case be converted to Chapter 7, the bankruptcy trustee would have the obligation to administer the bankruptcy estate. As part of such administration, the bankruptcy trustee, subject to bankruptcy court approval, may elect to continue to service the Loans or to transfer the right to such servicing to another entity for a fee. Either option would likely result in delays in the disbursement of payments on your LROs and could require the bankruptcy trustee to pay significant fees to another company to service the Loans and the LROs, ultimately decreasing the amounts available to be paid on corresponding LROs. Alternatively, the bankruptcy trustee may elect to cease servicing functions altogether. As Groundfloor Finance acts as GRE 1's agent in connection with certain servicing functions, the same disruption of the operation of the Groundfloor Platform and the servicing functions likely would occur if Groundfloor Finance were to enter bankruptcy or similar proceedings, even if GRE 1 did not.

In the event that we or Groundfloor Finance were to cease operations or enter into bankruptcy proceedings, recovery by a holder of a LRO may be substantially delayed while back-up servicing is secured, if practicable, or such services halted altogether, and such recovery may be substantially less than the amounts due and to become due on the LRO.

In a bankruptcy or similar proceeding of the Company or Groundfloor, there may be uncertainty regarding the rights of a holder of a LRO, if any, to access funds in your GRE 1 or Groundfloor account.

We currently maintain investor accounts with the FBO Servicer "for the benefit of" our investors. This so-called "Investor FBO Account" is a pooled account titled in our name "for the benefit of" the investors who purchase LROs issued by us. We believe that amounts funded by investors into the Investor FBO Account are unlikely to be subject to claims of our creditors other than the investors for whose benefit the funds are held, since beneficial ownership of those funds rests with the investors. However, we have legal title to the Investor FBO Account and the attendant right to administer the Investor FBO Account, each of which would be the property of our bankruptcy estate. As a result, if we became a debtor in a bankruptcy or other similar proceeding, the legal right to administer the funds in the Investor FBO Account would vest with the bankruptcy trustee, debtor in possession or similar representative of the estate. In that case, investors may have to seek a court order lifting the automatic stay or otherwise permitting them to withdraw their funds. Investors may suffer delays in accessing their funds in the Investor FBO Account as a result. Moreover, U.S. bankruptcy courts and courts overseeing similar proceedings have broad powers, and a court could determine that some or all of such funds were beneficially owned by us or otherwise became available to our creditors generally. The preceding risk also applies to funds held in your Groundfloor Investor FBO Account in the event of a Groundfloor bankruptcy or similar proceeding.

There may be further uncertainty in the event of a bankruptcy or similar proceeding of the Company regarding your rights with respect to funds that are set aside in your account pending closing. After you make a commitment to buy LROs, the Purchase Amount remains in one or more of our Investor FBO Accounts but is “blocked” or “frozen” until the LROs are issued and the corresponding Loan is closed, at which time the funds are transferred to the GRE 1 Borrower FBO Account. If the offering for that series of LROs is abandoned prior to issuance, the Purchase Amount is “unblocked” and released to your Groundfloor account. If the Company is the subject of bankruptcy or similar proceedings prior to this release of funds, a bankruptcy or similar court could determine that some or all of such funds are beneficially owned by the Company or otherwise become available to the Company’s creditor’s generally. If, after return of the funds to the Groundfloor Investor FBO Account, Groundfloor Finance is the subject of bankruptcy or similar proceedings, a bankruptcy or similar court could determine that some or all such funds are beneficially owned by Groundfloor or otherwise become available to Groundfloor’s creditors generally.

In a bankruptcy or similar proceeding of a Borrower, there may be uncertainty regarding our rights, if any, to access on your behalf any remaining unallocated funds in the Borrower’s sub-account.

We deposit the Loan Proceeds not advanced to the Borrower in the GRE 1 Borrower FBO Account. Under normal circumstances, in the event the corresponding Loan is discharged or cancelled before all Draws have been completed, we would return to each holder of the corresponding LROs an amount equal to such holder’s pro rata share of any portion of the Loan Proceeds not yet disbursed to the Borrower. This may not occur in the event of the Borrower’s bankruptcy or other similar proceeding. We believe that amounts held in a Borrower’s sub-account could be subject to claims of such Borrower’s creditors in the event of its bankruptcy or other similar proceeding or such funds could be used by a debtor in possession to fund its ongoing operations or reorganization. Although we typically would have the senior lien on the underlying assets, and therefore should have first priority to receive the funds out of the insolvent Borrower’s estate arising from that lien, we expect that our ability to disburse funds out of the GRE 1 Borrower FBO Account may be prevented by a court and at a minimum will be significantly delayed while we seek a court order lifting the automatic stay or other such relief permitting us to withdraw the funds on your behalf. Our ability to retrieve such funds may be even more tenuous in the event we have taken a second or junior lien on the underlying assets. As such, investors may never receive or may suffer delays in receiving such funds in the event of a Borrower’s bankruptcy or similar proceeding.

If the security of our investors and Borrowers’ confidential information stored in Groundfloor’s systems is breached or otherwise subjected to unauthorized access, your secure information may be stolen, our reputation may be harmed, and we may be exposed to liability.

The Groundfloor Platform stores the Borrowers’ and investors’ bank information and other personally-identifiable sensitive data. Any accidental or willful security breaches or other unauthorized access could cause your secure information to be accessed, publicly disclosed, or stolen and used for criminal purposes. Security breaches or unauthorized access to secure information could also disrupt our operations and subject us to liability related to the loss of the information, time-consuming and expensive litigation and negative publicity. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in the relevant software are exposed and exploited, and, as a result, a third party or disaffected employee obtains unauthorized access to any investor’s or Borrower’s data, our relationships with our investors will be severely damaged, and we, and Groundfloor Finance, could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until they are launched against a target, we, Groundfloor, and the third-party hosting facilities may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, many states have enacted laws requiring companies to notify individuals of data security breaches involving their personal data. These mandatory disclosures regarding a security breach are costly to implement and often lead to widespread negative publicity, which may cause our investors to lose confidence in the effectiveness of our data security measures. Any security breach, whether actual or perceived, would harm our reputation (and that of Groundfloor Finance), and we could lose investors.

Groundfloor Platform may be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions.

The Groundfloor Platform may be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions. If a “hacker” were able to infiltrate the Groundfloor Platform, you would be subject to the increased risk of fraud or Borrower identity theft and may experience losses on, or delays in the recoupment of amounts owed on, a fraudulently induced purchase of a LRO. Additionally, if a hacker were able to access secure files, he or she might be able to gain access to your personal information. While Groundfloor Finance has taken steps to prevent such activity from affecting the Groundfloor Platform, if Groundfloor Finance is unable to prevent such activity, the value of your investment in the LROs could be adversely affected.

When you commit to purchase a LRO, you may commit funds toward your purchase up to 50 days prior to the time when your LRO is issued.

Once the Offering Period for a particular series of LROs commences, it will remain open for 30 days (unless it is fully subscribed with irrevocable funding commitments before the end of such period); however, we may extend that period in our sole discretion (with notice to potential investors) up to a maximum of 45 days. Investors' commitments to purchase LROs become irrevocable following expiration of the Withdrawal Period. Commitments to purchase LROs made after expiration of the Withdrawal Period, if any, are irrevocable when authorized and may not be withdrawn. The issuance of the LROs is expected to occur as soon as possible (typically within five days) after the expiration of the Withdrawal Period. During the period between the time of your commitment and the time when your LRO is issued, you may not have access to the funds debited from your funding account or placed in escrow for closing. Because your funds do not earn interest, the delay in issuance of your LRO will have the effect of reducing the effective rate of return on your investment.

Groundfloor Finance relies on third-party banks and money transfer agents to operate the Groundfloor Platform. If it is unable to continue utilizing these services, our business and ability of Groundfloor Finance to service the Loan may be adversely affected.

All payments are processed through the Groundfloor Platform. Because Groundfloor Finance is not a bank, it cannot belong to or directly access the Automated Clearing House ("ACH") payment network, and it must rely on third-party payment agents and other FDIC-insured depository institutions to process our transactions, including payments of Loans and remittances to holders of LROs. Groundfloor Finance currently uses the services of Dwolla, Inc. and Wells Fargo for these purposes, but may change vendors at any time without prior notice to investors. Under the ACH rules, if Groundfloor experiences a high rate of reversed transactions (known as "chargebacks"), Groundfloor may be subject to sanctions and potentially disqualified from using the system to process payments.

Any significant disruption in service on the Groundfloor website or in Groundfloor Finance's computer systems could reduce the attractiveness of the Groundfloor Platform and result in a loss of users.

If a catastrophic event resulted in a Groundfloor Platform outage and physical data loss, Groundfloor Finance's ability to perform our servicing obligations would be materially and adversely affected. The satisfactory performance, reliability, and availability of Groundfloor Finance's technology and its underlying hosting services infrastructure are critical to its (as well as our) operations, level of customer service, reputation and ability to attract new users and retain existing users. Groundfloor Finance's hosting services infrastructure is provided, owned, and operated by a third party (the "Hosting Provider"). Groundfloor Finance also maintains a backup system at a separate location that is owned and operated by a third party. Groundfloor Finance's Hosting Provider does not guarantee that users' access to the Groundfloor website will be uninterrupted, error-free or secure. Groundfloor Finance's operations depend on our Hosting Provider's ability to protect its and our systems in its facilities against damage or interruption from natural disasters, power or telecommunications failures, air quality, temperature, humidity and other environmental concerns, computer viruses or other attempts to harm our systems, criminal acts and similar events. If Groundfloor Finance's arrangement with its Hosting Provider is terminated, or if there is a lapse of service or damage to its facilities, it could experience interruptions in our service as well as delays and additional expense in arranging new facilities. Any interruptions or delays in our service, whether as a result of Groundfloor Finance's Hosting Provider or other third-party error, its own error, natural disasters or security breaches, whether accidental or willful, could harm Groundfloor Finance's ability to service the Loan or maintain accurate accounts, and could harm our relationships with our users and our reputation. Additionally, in the event of damage or interruption, Groundfloor Finance's insurance policies may not adequately compensate us for any losses that we may incur. Groundfloor Finance's disaster recovery plan has not been tested under actual disaster conditions, and it may not have sufficient capacity to recover all data and services in the event of an outage at a Hosting Provider facility. These factors could prevent us from processing or posting payments on the Loan or the LROs, damage the Groundfloor brand and reputation, divert employees' attention, and cause users to abandon the Groundfloor Platform.

Events beyond our control may damage our ability to maintain adequate records, maintain the Groundfloor Platform or perform our servicing obligations.

If a catastrophic event resulted in the Groundfloor Platform outage and physical data loss, our ability to perform our servicing obligations would be materially and adversely affected. Similar events impacting third-party service providers that our operations depend on, such as Groundfloor Finance's Hosting Provider or payment vendor(s), could materially and adversely affect its (and our) operations. Such events could include, but are not limited to, fires, earthquakes, terrorist attacks, natural disasters, computer viruses and telecommunications failures. Groundfloor Finance stores back-up records in offsite facilities located in third-party, off-site locations. If Groundfloor Finance's electronic data storage and back-up storage system or those of its third-party service providers are affected by such events, we cannot guarantee that you would be able to recoup your investment in the LROs.

Investors will have no control over GRE 1 or Groundfloor Finance and will not be able to influence any related corporate matters.

The LROs grant no equity interest in GRE 1 or in Groundfloor Finance to purchasers, nor do they give purchasers the ability to vote on or influence any related corporate decisions. As a result, Groundfloor Finance will exercise 100% voting control over all of GRE 1's corporate matters and Groundfloor Finance's shareholders will continue to exercise 100% voting control over all of its corporate matters, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of the Company or our assets.

The LROs will not restrict Groundfloor Finance's ability to incur additional indebtedness.

Groundfloor Finance has substantially financed its early operations through the issuance of convertible notes, which converted to shares of Series Seed Preferred Stock pursuant to the terms of the Note Conversion Agreement, dated December 5, 2014. If Groundfloor Finance incurs additional debt after the LROs are issued, it may adversely affect its creditworthiness generally and could result in its financial distress, insolvency or bankruptcy. As discussed above, the financial distress, insolvency or bankruptcy of Groundfloor Finance could impair your ability to receive the payments you expect to receive on your LROs.

Neither GRE 1 nor Groundfloor Finance is subject to the banking regulations of any state or federal regulatory agency.

Neither GRE 1 nor Groundfloor Finance is subject to the periodic examinations to which commercial banks, savings banks and other thrift institutions are subject. Consequently, financing decisions and decisions regarding establishing loan loss reserves are not subject to period review by any governmental agency. Moreover, neither we nor Groundfloor Finance are subject to banking regulatory oversight relating to capital, asset quality, management or compliance with applicable laws.

Risks Related to the Tax Treatment of the LROs

The U.S. federal income tax consequences of an investment in the LROs are uncertain.

There are no statutory provisions, regulations, published rulings, or judicial decisions that directly address the characterization of the LROs or instruments similar to the LROs for U.S. federal income tax purposes. However, although the matter is not free from doubt, GRE 1 intends to treat the LROs as our indebtedness for U.S. federal income tax purposes. As a result of such treatment, the LROs will have OID for U.S. federal income tax purposes because payments on the LROs are dependent on payments on the corresponding Loan. Further, a holder of a LRO, other than a holder that is holding LROs in a tax deferred account such as an IRA, will be required to include the OID in income as ordinary interest income for U.S. federal income tax purposes over the term of the LRO as it accrues (which may be in advance of corresponding installment payments on the LRO), regardless of such holder's regular method of accounting. This characterization is not binding on the IRS, and the IRS may take contrary positions. Any differing treatment of the LROs could significantly affect the amount, timing and character of income, gain or loss in respect of an investment in the LROs. Accordingly, all prospective purchasers of the LROs are advised to consult their own tax advisors regarding the U.S. federal, state, local and non-U.S. tax consequences of the purchase and ownership of the LROs (including any possible differing treatments of the LROs).

The LROs could be treated as contingent payment debt instruments for U.S. federal income tax purposes.

The LROs could be subject to Treasury regulations under which they will be treated as contingent payment debt instruments for U.S. federal income tax purposes. Should this occur, you may recognize interest income on the LROs significantly in excess of the effective interest payments received thereon. Also, under these Treasury regulations, a U.S. holder generally will recognize ordinary income, rather than capital gain, on a sale, exchange, conversion, repurchase or redemption of a LRO.

GRE 1's ability to make payments on a LRO may be affected by our ability to match the timing of our income and deductions for U.S. federal income tax purposes.

Our ability to make payments on a LRO may be affected by our ability, for U.S. federal income tax purposes, to match the timing of income we receive from a corresponding Loan and the timing of deductions that we may be entitled to in respect of payments made on the LROs that we issue. For example, if the LROs, but not the corresponding Loan, are treated as contingent payment debt instruments for U.S. federal income tax purposes, there could be a potential mismatch in the timing of our income and deductions for U.S. federal income tax purposes, which could affect our ability to make payments on the LROs.

If the IRS disagrees with our characterization of the LROs for tax purposes, GRE 1's ability to make payments on the LROs could be adversely affected.

The IRS is not bound by our characterization of the LROs, and it could treat the corresponding Loan as a debt owed to us (with interest received being treated as taxable income to us) but treat the LROs as equity (with interest payments being treated as nondeductible). Were this to occur, we would have taxable income without an offsetting deduction, and the additional tax obligations owed by us would reduce the cash available for payment of the LROs. As a result, we could be unable to fully repay the LROs even if the corresponding Loan Payments were repaid in full.

Risks Related to Compliance and Regulation

The requirements of complying on an ongoing basis with Tier 2 of Regulation A of the Securities Act may strain our resources and divert management's attention.

Because we are conducting an offering pursuant to Tier 2 of Regulation A of the Securities Act, we will be subject to certain ongoing reporting requirements. Compliance with these rules and regulations will require legal and financial compliance costs, which may impose strain on our operating budget and divert management's time and attention from operational activities. Moreover, as a result of the disclosure of information in this Offering Circular and in other public filings we make, our business operations, operating results and financial condition will become more visible, including to competitors and other third parties.

If a fundamental change occurs in the information set forth in this Offering Circular, we may be required to suspend offering LROs until a PQA updating such information is qualified by the SEC, which may adversely affect our financial performance.

This Offering Circular relates to the issuance of LROs pursuant to Tier 2 of Regulation A under the Securities Act. Pursuant to the rules of Regulation A, we are required to file a PQA to reflect any facts or events arising after the qualification date of this Offering Circular (or the most recent PQA hereof) which, individually or in the aggregate, represent a fundamental change in the information set forth herein. We also may be required to suspend ongoing offerings of LROs under this Offering Circular and/or delay offering additional series of LROs until such PQA is qualified by the SEC. If we or other entities affiliated with Groundfloor Finance are required to suspend offerings of LROs for an extended amount of time pending qualification by the SEC, the financial performance of Groundfloor Finance and of GRE 1 could be adversely affected.

If we or our affiliated companies are required to register under the Investment Company Act or the Investment Advisors Act of 1940, or become subject to the SEC's regulations governing broker-dealers, our ability to conduct our business could be materially and adversely affected.

The SEC heavily regulates the manner in which “investment companies,” “investment advisors,” and “broker-dealers” are permitted to conduct their business activities. We believe we have conducted our business in a manner that does not result in the Company or its affiliates being characterized as an investment company, an investment advisor or a broker-dealer, as we do not believe that we engage in any of the activities described under Section 3(a)(1) of the Investment Company Act of 1940 or Section 202(a)(11) or the Investment Advisor’s Act of 1940 or any similar provisions under state law, or in the business of (i) effecting transactions in securities for the account of others as described under Section 3(a)(4)(A) of the Exchange Act or any similar provisions under state law or (ii) buying and selling securities for our own account, through a broker or otherwise as described under Section 3(a)(5)(A) of the Exchange Act or any similar provisions under state law. We intend to continue to conduct our business in such manner. If, however, we (or any of our affiliates) are deemed to be an investment company, an investment advisor, or a broker-dealer, we may be required to institute burdensome compliance requirements and our activities may be restricted, which would affect our business to a material degree.

Our Loan origination and servicing activities are subject to extensive federal, state and local regulation that could adversely impact operations.

GRE 1, and Groundfloor Finance to the extent it is acting as our agent, must comply with regulatory regimes, including those applicable to mortgage lending transactions, various aspects of which are untested as applied to the Groundfloor Platform. Certain state laws generally regulate interest rates and other charges and require certain disclosures. In addition, other federal and state laws may apply to the origination and servicing of Loans originated through the Groundfloor Platform.

In particular, through the Groundfloor Platform, we may be subject to laws, including but not limited to:

- state laws and regulations that require us to obtain licenses to originate Loans or which may impose requirements related to Loan disclosures and terms, debt collection and unfair or deceptive business practices; the Equal Credit Opportunity Act and Regulation B promulgated thereunder, which prohibit creditors from discriminating against credit applicants on the basis of race, color, sex, age, religion, national origin, marital status, the fact that all or part of the applicant’s income derives from any public assistance program or the fact that the applicant has in good faith exercised any right under the federal Consumer Credit Protection Act or any applicable state law;
- the Bankruptcy Code, which limits the extent to which creditors may seek to enforce debts against parties who have filed for bankruptcy protection;
- the Electronic Fund Transfer Act and Regulation E promulgated thereunder, which provide guidelines and restrictions on the electronic transfer of funds from consumers’ bank accounts; and
- the Electronic Signatures in Global and National Commerce Act and similar state laws, particularly the Uniform Electronic Transactions Act, which authorize the creation of legally binding and enforceable agreements utilizing electronic records and signatures.

GRE 1 and Groundfloor Finance may not always have been, and may not always be, in compliance with these laws. Compliance with these laws is also costly, time-consuming and limits our operational flexibility.

Failure to comply with these laws and regulatory requirements applicable to this business may, among other things, have a negative impact on GRE 1’s and/or Groundfloor Finance’s ability to originate and service Loans or maintain the Groundfloor Platform. In addition, any non-compliance could subject GRE 1 and/or Groundfloor Finance to damages, revocation of required licenses, class action lawsuits, administrative enforcement actions, rescission rights held by investors in securities offerings and civil and criminal liability, which may harm the business and the ability to maintain the Groundfloor Platform and may result in Borrowers rescinding their Loans.

Where applicable, GRE 1 and Groundfloor Finance seek to comply with state mortgage licensing, servicing and similar statutes. GRE 1 and Groundfloor Finance are aware that making Loans in certain U.S. jurisdictions may trigger local licensing requirements. GRE 1 and Groundfloor Finance work with local counsel in each jurisdiction in which Loans are financed to determine whether any licenses are required and, to the extent necessary, will seek to obtain such licenses and will comply with the relevant regulatory requirements before facilitating Loans to Borrowers in any such jurisdiction. If GRE 1 and/or Groundfloor Finance are found to not comply with applicable laws, we could lose one or more of our licenses or authorizations or face other sanctions or be required to obtain a license in such jurisdiction, which may have an adverse effect on our ability to continue to facilitate Loans through the Groundfloor Platform, perform servicing obligations or make the Groundfloor Platform available to Borrowers in particular states, which may harm the business.

If the Groundfloor Platform was found to violate a state's usury laws, we may have to alter our business model and our business could be harmed.

The interest rates that are charged to Borrowers and that form the basis of payments to investors through the Groundfloor Platform must comply with the usury law of the jurisdiction where we originate each Loan. There is no uniformity among the states on the amount of interest that may be charged on commercial real estate lending. As a result, GRE 1 and Groundfloor Finance must monitor the interest rate limitations imposed by each jurisdiction where we originate Loans to ensure compliance, which reduces operating efficiency and may impact the attractiveness of the Loans offered to investors as well as the ability to apply late charges and penalty and default interest. In addition, if a Borrower were to successfully bring claims against GRE 1 and/or Groundfloor Finance for state usury law violations, and the rate on that Borrower's Loan was greater than that allowed under applicable state law, GRE 1 and/or Groundfloor Finance could be subject to fines and penalties, which could possibly result in a decline in operating results.

Increased regulatory focus could result in additional burdens on our business.

The financial industry is becoming more highly regulated. There has been, and may continue to be, a related increase in regulatory scrutiny and investigations of the operations of peer-to-peer or micro-lending platforms as well as trading and other investment activities of alternative investment funds. Increased regulatory scrutiny and investigations may impose additional expenses on Groundfloor Finance and GRE 1, may require the attention of Groundfloor Finance's senior management and may result in fines if Groundfloor Finance or GRE 1 is deemed to have violated any regulations.

As Internet commerce develops, federal and state governments may adopt new laws to regulate Internet commerce, which may negatively affect our business.

As Internet commerce continues to evolve, increasing regulation by federal and state governments becomes more likely. The Groundfloor Finance business could be negatively affected by the application of existing laws and regulations or the enactment of new laws applicable to lending. The costs to comply with such laws or regulations could be significant and would increase operating expenses, and we may be required to pass along those costs to our investors in the form of increased fees. In addition, federal and state governmental or regulatory agencies may decide to impose taxes on services provided over the Internet. These taxes could discourage the use of the Internet as a means of commercial financing, which would adversely affect the viability of this business model.

YOU SHOULD CONSULT WITH YOUR OWN ATTORNEYS, ACCOUNTANTS AND OTHER PROFESSIONAL ADVISORS AS TO THE LEGAL, TAX, ACCOUNTING AND OTHER CONSEQUENCES OF AN INVESTMENT IN THE LROS.

PURSUANT TO INTERNAL REVENUE SERVICE CIRCULAR NO. 230, BE ADVISED THAT ANY FEDERAL TAX ADVICE IN THIS COMMUNICATION, INCLUDING ANY ATTACHMENTS OR ENCLOSURES, WAS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED BY ANY PERSON OR ENTITY TAXPAYER, FOR THE PURPOSE OF AVOIDING ANY INTERNAL REVENUE CODE PENALTIES THAT MAY BE IMPOSED ON SUCH PERSON OR ENTITY. SUCH ADVICE WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTION(S) OR MATTER(S) ADDRESSED BY THE WRITTEN ADVICE. EACH PERSON OR ENTITY SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Offering Circular, including the sections entitled "Risk Factors," "Description of the Business of GRE 1 and of Groundfloor Finance," "The LROs Covered by this Offering Circular," "Plan of Distribution" and "Use of Proceeds," contain forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "could," "would," "project," "plan," "expect" or the negative or plural of these words or similar expressions. These forward-looking statements include, but are not limited to, statements concerning the Company, its parent, Groundfloor Finance and affiliated companies, risk factors, plans and projections. You should not rely upon forward-looking statements as predictions of future events. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in "Risk Factors." In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Offering Circular may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

Except as required by law, neither GRE 1 nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Offering Circular to conform these statements to actual results or to changes in our expectations.

You should read this Offering Circular, including the Project Summaries beginning on page PS-1 of this Offering Circular and the form of LRO Agreement beginning on page LRO-1 of this Offering Circular, and the documents that we reference in this Offering Circular and have filed with the SEC as exhibits to the Form 1-A of which this Offering Circular is a part with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

DESCRIPTION OF THE BUSINESS OF GRE 1 AND OF GROUNDLOOR FINANCE

Overview

GRE 1 and Groundfloor Finance

GRE 1 uses the Groundfloor Platform to source financing for real estate development projects. Through the Groundfloor Platform, investors can choose between multiple real estate development investment opportunities (each, a “Project”) and developers of the Projects (each, a “Borrower”) can obtain financing.

GRE 1 relies on Groundfloor Finance to operate the Groundfloor Platform, facilitate due diligence and underwriting reviews, coordinate payment to and from investors and developers through the use of various funding accounts described below, manage Loan advances and administer, service and collect on the Loans GRE 1 funds through the offer and sale of LROs, on behalf of GRE 1.

The intended focus of the lending program operated by Groundfloor Finance and its affiliated companies, including GRE 1, is the commercial market for lending to developers of residential and small commercial real estate projects owned and occupied by parties other than the Borrower (or its Principal(s)). Proceeds from the Loans typically will be applied toward the Project’s acquisition and/or renovation or construction costs. In some circumstances, we may permit a portion of the proceeds from the Loan to be used by the Borrower to offset a portion of the purchase price of the property, works completed, or equity, but such offset will then reduce its amount of “skin-in-the-game” the Borrower would have in the Project (see below under “Description of the Business of GRE 1 and of Groundfloor Finance—Our Loans to Borrowers—Credit Risk and Valuation Assessment—The Grading Algorithm—‘Skin-in-the-Game’”).

All of the LROs being offered under this Offering Circular relate to residential real estate Projects. As a result, the discussions of the operations, due diligence and other aspects of this Offering described herein are designed specifically for residential projects.

GRE 1 was formed as a Georgia limited liability company on December 16, 2016. Groundfloor Finance, a Georgia corporation, is GRE 1’s sole member and manager and parent company. Groundfloor Finance owns and operates the Groundfloor Platform. Groundfloor Finance began originating real estate loans in Georgia through a subsidiary in November 2013 and transitioned to multi-state operations through the sale of LROs under a Regulation A offering in September 2015. Groundfloor Finance is in the process of transitioning the offerings of LROs to one or more subsidiaries and, following qualification of this Offering Circular, intends to gradually discontinue its direct offerings of LROs, but will continue to host the offerings and solicit Borrowers through the Groundfloor Platform and provide Loan underwriting, origination, servicing, and administration services to GRE 1 and its other subsidiaries conducting offerings.

This Offering Circular relates to the issuance of LROs pursuant to Tier 2 of Regulation A (or available exemptions) under the Securities Act. Each series of LROs corresponds to a different Project financed by a commercial loan from GRE 1 (each, a “Loan”). The specific terms for each series of LROs being offered under this Offering Circular are set forth in the “The LROs Covered by this Offering Circular” below, the Project Summaries beginning on page PS-1, and the form of LRO Agreement beginning on page LRO-1. The amount of the LRO Payments owed to investors is dependent upon, and will not exceed, the amount of the Loan Payments collected on the corresponding Loan. In each case, the Borrower is the borrower with respect to each Loan.

The Loans and LROs

Generally, the Loans related to the LROs range between \$10,000 and \$3,000,000, at interest rates that range, subject to applicable law, between 3% and 26%, and mature six months to five years from the date when the Loan is made. The terms of each series of LROs generally correspond to those of the corresponding Loan. For example, assuming a Borrower wishes to enter into a Loan covering \$10,000, with an interest rate of 10% and a 12-month maturity date, the aggregate Purchase Amount of the LROs of the series corresponding to that Loan would be \$10,000, with an Expected Rate of Return of 10% per annum, and a final payment date of 12 months from the date of issuance. The specific terms for each series of LROs being offered under this Offering Circular are set forth in “The LROs Covered by this Offering Circular” below, the Project Summaries beginning on page PS-1, and the form of LRO Agreement beginning on page LRO-1.

We may use the proceeds of the sale of the corresponding series of LROs to originate the Loan and, in those circumstances, we would close and fund the corresponding Loan on the original issue date of the LROs. However, in most circumstances, we, Groundfloor Finance, or a subsidiary of Groundfloor Finance may advance Loans prior to the qualification or sale of corresponding series of LROs. See “—How the Groundfloor Platform Operates—Loan Advances.”

In addition to issuing the LRO and funding the Loans, we are authorized to administer, service and collect on the Loans. Groundfloor Finance acts as our agent in this respect. The Loan Proceeds remain in the GRE 1 Borrower FBO Account until disbursed pursuant to the terms of the Loan Agreement. Typically amounts are disbursed from the Loan Proceeds, less any fees and expenses included in the Loan Principal, to the Borrower from time to time as Draws. Under limited circumstances, for instance if the Loan Principal is \$50,000 or less or when an amount greater than \$50,000 is needed for the acquisition of a property, the full amount of the Loan Proceeds will be disbursed to the Borrower on the origination date of the Loan. The Borrower will use the Loan Proceeds to complete the Project, repaying principal and interest (either as a balloon payment at maturity or on a monthly/quarterly basis) to us. Within five business days of our receipt of such amounts, we will make the LRO Payments on the corresponding series of LROs. The LRO Agreement gives us sole discretion in applying amounts we receive from, or for the account of, the Borrower, with respect to the Loan, and we may make LRO Payments out of any funds at our disposal.

It is generally expected that investors would profit from the interest earned on the Loan, as each holder of a LRO will be entitled to an expected return that corresponds to the interest rate applied to the corresponding Loan (including any adjustments that may be made to account for any default, modification, etc.), net of certain fees and expenses. See “—Fees and Related Expenses” below.

We perfect a lien on the real estate and other assets underlying each Project to secure the Loan; however, investors in the corresponding series of LROs will not have any recourse against the Borrower or its Principals. Your recourse against us is limited to the amount of any LRO Payments we owe you (as determined pursuant to the terms of the corresponding LRO Agreement). The specific terms for each series of LROs being offered under this Offering Circular are set forth in the “The LROs Covered by this Offering Circular” below, the Project Summaries beginning on page PS-1, and the form of LRO Agreement beginning on page LRO-1.

Where Groundfloor Finance or one of its affiliates has advanced a Loan and holds that Loan on its own books, Groundfloor Finance or the affiliate may elect to sell the whole Loan or a portion of the Loan to a third party outside of this Offering. Alternatively, Groundfloor Finance or its affiliate may continue to hold the Loan on its own books and service the Loan with its own capital. Groundfloor Finance or one of its affiliates may also choose to offer series of LROs pursuant to a separately qualified offering statement under Regulation A or other exemptions from federal and state securities registration requirements.

Example LRO and Expected Yield

By way of illustration, assume we approve an acquisition and construction Loan with the following terms: \$100,000 in principal amount, with a 10% interest rate over a 12-month term, and a balloon payment upon maturity. We would offer LROs covering \$100,000 in aggregate Purchase Amount, at an Expected Rate of Return of 10%; with the final payment date of 12 months following the original issue date.

If the Borrower elects to include our origination and servicing fees (of \$4,000 or 4%) and closing expenses (of \$1,000) in the Loan Principal, upon funding of the Loan by investors, the Borrower’s FBO Account would be credited with \$95,000 (equal to the entire Loan Principal of \$100,000 less the \$5,000 in fees and expenses, which we retain). Interest on the entire \$100,000 would accrue beginning on the original issue date, through the 12-month term of the Loan, and, at the end of that 12-month term (assuming there are no additional fees and expenses incurred by the Company and no prepayment or default by the Borrower), the Borrower would pay us a total of \$110,000 (equal to the entire Loan Principal of \$100,000, plus \$10,000 of accrued interest). We would, within five business days of receipt of these funds, disburse to each holder of the corresponding series of LROs an amount equal to such holder’s pro rata share of \$110,000 (the total Loan Payment we received from the Borrower).

These payments are made directly into the investors’ funding accounts maintained on the Groundfloor Platform. (See “—How the Groundfloor Platform Operates—Investor FBO Accounts” and “—Project Funding and Payment of Expected Yield” below.)

In most cases, the Loan will have been advanced prior to qualification of the corresponding series of LROs. As a result, the Loan would be amended in connection with the closing of the series of LROs to assign the Loan to GRE 1 from Groundfloor Finance or applicable subsidiary and to amend the maturity date to match the term of the corresponding series of LROs (i.e., 12 months in the example above). Interest that accrues on the advanced Loan before the issuance of the corresponding series of LROs is retained by GRE 1; thereafter, there would be no other difference between the original issue date and the payment of the Loan and corresponding series of LROs as described above. See “—How the Groundfloor Platform Operates—Loan Advances” below for more information on the loan advance program.

Background

Two types of customers use the Groundfloor Platform: real estate developers who are in need of project financing and retail investors looking for investment opportunities.

Real estate is a trillion dollar industry in the United States.* Real estate projects are financed through a variety of debt and equity transactions. Groundfloor Finance and its affiliated companies focus on financing real estate projects in the smaller market segments by providing debt financing. The prototypical project is an unoccupied single family or multifamily renovation costing between \$10,000 and \$3,000,000 over six months to a year, to be sold upon completion. Borrowers are offered term financing for the acquisition and development of real estate projects through the acquisition of land and/or an existing structure, for the purposes of new construction or renovation. In some circumstances, Borrowers may use a portion of the proceeds from the Loan to offset a portion of the purchase price of the property, works completed, or equity, but such offset will then reduce its amount of “skin-in-the-game” the Borrower would have in the Project (see below under “—Our Loans to Borrowers— Credit Risk and Valuation Assessment—The Grading Algorithm—‘Skin-in-the-Game’”). Borrowers may also receive Loans (for projects that have completed construction) intended to refinance other term debt or equity.

Groundfloor Finance provides an opportunity for retail investors to gain exposure to real estate investments by creating an investment product backed by secured real estate loans. On a risk adjusted basis, it is Groundfloor Finance’s belief (and our belief) that the LROs offered through the Groundfloor Platform provide a competitive potential return for retail investors when compared to more conventional investment products.

The Groundfloor Financing Model

The Groundfloor Finance business model serves as an alternative to, or substitute for, traditional sources of capital of financing for real estate projects with the aggregation of capital from investors using the Internet. Historically, real estate developers have utilized many sources of capital to finance projects, including traditional bank loans, equity investments, personal loans or borrowings, etc. Through the Groundfloor Platform, Borrowers are offered an alternative source of capital for real estate development projects, but one that is flexible enough to cover all of the costs associated with a particular project or to work in tandem with more traditional financing arrangements.

We believe that the advantages of our method of real estate financing include:

- lower interest rates for financing of real estate projects;
- attractive returns for investors;
- the opportunity to promote community redevelopment by investing in local real estate projects; and
- growing acceptance of the Internet as an efficient and convenient forum for investment transactions.

The Real Estate Project Development Process

A real estate project’s timeline can be divided into the following stages: Project Identification, Project Execution, and Project Stabilization or Exit.

Project Identification. During this phase, a developer must commit working capital to identify potential projects. Typically, projects can involve new construction or rehabilitation of an existing building. During this phase, the developer incurs certain planning and development costs as it undertakes the process of:

- identifying a property to purchase for development or rehabilitation;
- creating a development plan for a given property;

- ensuring the feasibility of the development plan by checking zoning, tax records, undertaking environmental and engineering assessments, developing a construction plan and budget, etc.;
- engaging contractors for specific aspects of the work that may be outsourced by the developer;
- sourcing suppliers and vendors for materials and services in furtherance of the development plan; and
- preparing information that will be required for a lender to underwrite project financing.

* *GDP-by-industry*, BUREAU OF ECON. ANALYSIS,
<http://www.bea.gov/iTable/iTable.cfm?ReqID=51&step=1#reqid=51&step=51&isuri=1&5114=a&5102=15>.

Project Execution. Once a project has been identified, the developer moves into the project execution phase. Financing arrangements may need to be put in place to cover the cost of acquiring the underlying property (such as the land for new construction or land and existing buildings(s) for rehabilitation or renovations).

Typically, real estate developers in the market segment that we address will utilize third-party engineering, procurement and construction services to complete projects. A general contractor, who is responsible for the majority of the work and the work undertaken by any subcontractors, is often engaged to complete the construction and development of a project. Alternatively, a developer may act as general contractor and undertake all or a portion of the work or engage subcontractors to do so. During this phase, the developer needs capital to pay contractors for work, suppliers for materials, and vendors for other goods and services. Construction timelines may vary depending upon the project size, the demand for contractors and other skilled trades, the availability of materials, and the ability of the developer to secure and deploy capital to ensure continued work on the project. The completion of construction is also dependent on inspections by government regulators to ensure projects meet building codes and any other regulations that are applicable in a given jurisdiction.

Project Stabilization or Exit. Following completion of construction and certification that a completed project meets any applicable codes and regulations, the developer must arrange to repay any development or construction finance that exists on the project. Repayment of existing financing arrangements may also occur before a project is completed, such as when a developer decides to refinance the project to take advantage of more favorable interest rates or for other reasons.

If the project is to be stabilized, the developer may act as the landlord of the property and lease the property to use the rental income to repay financing obligations over time. The developer typically obtains a multi-year mortgage from a bank, and the proceeds of the new mortgage will be used to repay the existing construction loans. Banks may require the developer to find tenants for a completed project, although tenancy is not always a prerequisite for obtaining such financing. This is known as take-out or permanent financing, because the new bank mortgage takes out any construction financing and effectively becomes the primary debt obligation on the underlying property.

Alternatively, the developer may exit the project by selling it. If the developer decides to exit by sale, the property must be marketed. The proceeds of the sale will then be used to repay any financing that remains on the property. A less common exit strategy is for the developer to pay off any land acquisition or construction financing with cash. This cash may come from the sale of other properties in the developer's portfolio or it may be cash on hand.

Refinancing arrangements and property sales are subject to a detailed closing process, whereby current lenders on the property (such as the Company) must release any liens they hold in favor of the new lender or the purchaser. These types of closings can take several weeks to complete.

Financing Projects through the Groundfloor Platform

The Groundfloor Platform offers term financing for the acquisition and development of real estate projects in which we (or one of our affiliates) make a Loan to a real estate developer having a repayment term of six months to five years, at an annual fixed interest rate. The proceeds of this Loan may be applied toward the Project's acquisition and/or renovation or construction costs. In some circumstances, we may permit a portion of the proceeds from the Loan to be used as a general credit facility for the business. We may also provide Loans (for projects that have completed construction) intended to refinance other term debt or equity. Where the loan is used to refinance other capital, it will function as bridge financing, it being understood that the Borrower will obtain permanent financing at a later date. We anticipate that bridge financing arrangements will not differ materially from the terms of our acquisition and construction financing arrangements, except with respect to the maturity of the Loan. We expect bridge Loans to mature in three to five years.

To date, the Groundfloor Platform has offered acquisition, construction, rent stabilization, and transactional financing on residential and small commercial real estate projects.

The resulting Loans in all circumstances are secured by a lien covering the real estate and other assets underlying the Project. In most cases, our lien will be senior to the Borrower's other financing obligations. See the Project Summaries beginning on page PS-1 for our lien position for each series of LROs offered under this Offering Circular. We confirm our lien position by conducting a title search of the property and obtaining title insurance on the property in connection with closing of the Loans, requiring the Borrower to represent and warrant in the Loan Agreement that there are no other encumbrances on the property, and through various diligence steps undertaken in the course of our underwriting process. If we are financing a second lien Loan, the Borrower may provide the results of a title search performed, and title insurance obtained, by the first lienholder within a month of the submitted Application in lieu of performing a separate title search and obtaining title insurance. Borrowers typically use cash generated from the sale of a completed project or leasing arrangements, cash which comes from the proceeds of take-out or permanent financing provided by another lender or, less commonly, cash on hand to make payments on the Loan.

The Loan Documents with each Borrower will provide that such Borrower's obligations under the Loan are recourse, which means that, in the event of nonpayment, we may collect any outstanding amount owed for the debt from the Borrower even after we have foreclosed on the collateral securing the debt. Even though the Loan obligations are recourse to the Borrower, in most cases, the Borrower's assets are limited primarily to its interest in the related mortgaged property. Further, our remedies against the Borrower may be limited by state law in certain jurisdictions. For instance, some jurisdictions restrict a mortgagee's right to seek a deficiency against the Borrower in the event the amount realized from a foreclosure sale is insufficient to repay the underlying debt, commonly referred to as anti-deficiency statutes. Moreover, in jurisdictions where deficiency actions are permitted, the burden of proof with respect to the adequacy of the amount realized from the foreclosure is often imposed on the party seeking the deficiency, such that deficiency actions may result in costly and protracted litigation. Further, some jurisdictions continue to apply the common-law doctrine of "election of remedies" pursuant to which a mortgagee must elect either to sue for recovery under the obligation or pursue foreclosure against the property subject to the mortgage lien. While such restrictions can frequently be waived as a matter of contract, the election of remedies doctrine represents a potential defense in certain circumstances. Since the Principals are not obligors under the Loan Documents, we are limited in seeking recourse for non-payment to the borrowing entity itself. If the Borrower fails to make payments on the Loan and our remedy is limited to the value of the property securing the Loan, you may lose some, or all, of the expected yield on your LROs.

Consideration of the Principal

The Groundfloor Platform does not offer financing for owner-occupied residential projects, and Loans will not finance any personal, family, or household purpose. All Loans are commercial in nature. Although the Groundfloor Platform only offers loans to legal entities (i.e., the Borrower), due to the nature of the real estate development business and the smaller market segment serviced through the business, the background and experience of the individual(s) who own and operate the borrowing entity (i.e., the Principal(s)) are important factors into the due diligence and underwriting process conducted on our behalf by Groundfloor Finance.

Some Borrowers are large legal entities that have been in existence for many years and have been formed (by a single person, or less frequently, a number of individuals) for the purpose of managing multiple real estate projects. In this situation, the industry experience, performance history and financial position of the Borrower itself may provide significant information to assess for purposes of the due diligence and underwriting process.

It is often the case, however, that a Principal with extensive experience developing real estate properties is simultaneously managing a number of separate projects through multiple legal entities. In this situation, the actual Borrower may have been formed recently for the sole purpose of acquiring and developing the property and the number of years that entity has been in existence, as well as the financial data and number and types of projects that the borrowing entity has completed, is extremely limited.

In other circumstances, this may be the first venture for a Principal in the real estate development industry or the Principal may have limited experience in the type of project being considered. For example, a Principal may have successfully completed a number of small residential remodeling projects (or a "fix and flip"), but is now proposing to engage in extensive renovation or ground up construction projects.

Because of these different possibilities, the due diligence and underwriting process is not limited only to information about the borrowing entity. Irrespective of the history of the borrowing entity, doing so would fail to capture important information (both favorable and unfavorable) about the Principal and his/her other real estate development activities that we and our parent, Groundfloor Finance, believe should be considered in the due diligence and underwriting process. For instance, if we only looked at the history of the Borrower, we may fail to discover that the Principal has filed for personal bankruptcy during the past 12 months, which would be an automatic disqualification under the underwriting procedures. In fact, the goal is to encourage high quality, well-seasoned real estate developers to seek financing through the Groundfloor Platform because their projects are less risky than those sponsored by inexperienced or unsuccessful developers. Failure to give credit to the Principals for their hard work and good performance might cause the due diligence and underwriting process to misjudge the risks associated with the Project.

Thus, in addition to considering the specific information with respect to the Borrower under the Loan, the due diligence and underwriting process also considers the creditworthiness (through a review of FICO scores) and broader experience of the Principal. This includes the Principal's industry experience beyond real estate development per se (such as activities as a real estate broker or as a general contractor of residential projects), as well as the real estate development activities undertaken by the Principal (through the Borrower and any other legal entities used for real estate development activities).

How the Groundfloor Platform Operates

Identification and Posting of Projects on the Groundfloor Platform

The financing of a Project generally commences with a Principal of a Borrower requesting financing through the Groundfloor Platform. He or she can go to a special landing page on the Groundfloor Platform where he or she may obtain a "Quick Rate Quote" by inputting certain project details into a web-based form. Based on this information, the Groundfloor Platform will provide an estimated interest rate, which represents the minimum interest rate we are prepared to offer. If the Principal is interested in pursuing a Loan through the Groundfloor Platform, he/she then registers with the Groundfloor Platform on behalf of the borrowing entity, agreeing to the Privacy Policy and Terms of Service. The Principal must then complete an on-line application ("Application") on behalf of the borrowing entity so the Project will be assessed and the Loan underwritten prior to being listed on and offered through the Groundfloor Platform. Along with the Application, the borrowing entity must agree to a Master Services Agreement, which obligates it to supply truthful information to us in a timely fashion and outlines the process from Application intake to listing a Project on the Groundfloor Platform.

The Application generally requests the following information from the borrowing entity:

- Background information about the borrowing entity, including:
 - o name and address;
 - o business organization type;
 - o jurisdiction and date of formation (and number of years in business);
 - o names, contact and background information of all Principals; and
 - o whether the borrowing entity (or its Principals) has ever been subject to a bankruptcy, foreclosed on or involved in adverse litigation (including any formal action on a lien) with respect to any properties under its control.
- Select historical and financial information about the borrowing entity, as well as experience and historical information about the Principal and other entities he or she operates:
- Information about the Project, including:
 - o legal address and a complete description of the property;
 - o description of the project on an "as-completed basis" (meaning reflecting completion of the proposed repairs, renovations, enhancements, improvements and/or construction);
 - o identity of any general contractors;
 - o sources and uses, market data, blueprints, general contractor agreement, and project budget or Draw schedule;
 - o description of any environmental risks related to the property (fire, soil erosion, etc.);
 - o description of insurance held on the property;
 - o description of any existing debt or encumbrances on the property;
 - o amount of cash on hand to cover overruns; and
 - o proof of insurance, title, studies, assessments.
- Details about the financing being requested, including:
 - o type of Project (acquisition, acquisition/rehabilitation, new construction/development, refinance, etc.);
 - o detail of existing capital in the Project, current revenue and primary source(s) of financing;
 - o Loan amount and repayment terms requested;
 - o estimation of the projected after repair value of the Project (and documentation to support that projection); and
 - o projected start and completion dates and date funding is needed.

Borrowers represent and warrant to GRE 1 in the Loan Agreement that none of the disclosures, statements, projections, materials, assertions or other communications made by them or provided to us contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statement contained herein or therein not misleading.

All information in the Application is collected through the Groundfloor Platform electronically and assessed in detail by Groundfloor Finance's underwriting team on our behalf. See “—Our Loans to Borrowers—Evaluation of Project Applications” below.

Once a significant number of Projects financed are identified, GRE 1 will file a PQA to this offering statement, identifying the corresponding series of LROs to be qualified for offering under Regulation A. Once such PQA is duly qualified, GRE 1 will post on the Groundfloor Platform a Project Summary for each Loan to commence offering the corresponding series of LROs.

From time to time, Groundfloor Finance may engage third parties to assist with the identification of developers and/or real estate development projects that may be suitable for financing through the Groundfloor Platform. Any Loans that result from these arrangements will be negotiated on an arms'-length basis and will be subject to standard diligence and underwriting procedures. Groundfloor Finance has not yet engaged any third parties to assist with the identification of developers and/or real estate development projects.

Loan Advances

Groundfloor has implemented a program to originate Loans prior to the completion of sales of the corresponding LROs by advancing the amount of funding needed to close the Loan. The program was enacted as a response to the number of series of LROs that were abandoned following qualification due to the Borrower obtaining the needed capital from alternative sources. Pursuant to this program, Groundfloor originates and advances Loans to Borrowers who have self-reported an immediate need for capital. These originations are typically undertaken by Groundfloor Holdings GA, LLC (“Holdings”), a wholly-owned subsidiary of Groundfloor Finance with no assets (other than the Loans that may be advanced from time to time), employees, or other business functions, although there may be instances that Groundfloor Finance or another affiliated entity will originate the advanced Loan.

The capital for these advances comes primarily from the revolving credit facility with Revolver LLC described below and the ISB Note (as defined below), although Groundfloor reserves the right to fund the advances through other arrangements (such as cash on hand, by entering into additional borrowing arrangements and/or by entering into separate arrangements with third-party originators). Once GRE 1 qualifies and fully subscribes a series of LROs that corresponds to an advanced Loan, all or a portion of the proceeds from the sale of the corresponding series of will be used to repay the advanced amount and the advanced Loan is also assigned to GRE 1.

The program specifically works as follows:

- Groundfloor Finance underwrites Loans from its pipeline in the ordinary course and consistent with the stated policies and procedures described in this Offering Circular. See “—How the Groundfloor Platform Operates” and “—Our Loans to Borrowers.”
- Once a decision on whether to finance a Loan is made and the terms to apply to the Loan, Groundfloor Finance will consider whether to advance the Loan. Groundfloor will advance money for Loans that have passed underwriting if one of two conditions are present: (1) a contract exists to purchase the property within 45 days of the Loan being approved from underwriting; or (2) the property has already been purchased and is in possession of the Borrower.
- Groundfloor Finance directly, or a subsidiary of Groundfloor (including Holdings), will (on our behalf) originate Loans and advance funds to those Borrowers who meet the conditions outlined above. Holdings (or the entity advancing the Loan) will charge the same origination fee (and any servicing and administration fees that may become due prior to assignment of the advanced Loan to GRE 1) that otherwise GRE 1 would collect (if it had originated the Loan in the first instance). Holdings (or the entity advancing the Loan) and the Borrower enter into the same Loan Documents that we would otherwise use in the course of originating Loans. Holdings (or the entity advancing the Loan) will take out the same lien on the real estate underlying the Project that we would otherwise secure at closing. Interest immediately begins to accrue on the amount advanced; however, the interest earned prior to the original issue date of the corresponding LROs is not passed to investors. Instead, upon repayment of the Loan by the Borrower, GRE 1 will retain all of the interest that had accrued on the advanced Loan between the date it was originated and the original issue date of the corresponding LROs.
- Holdings (or the entity advancing the Loan) will often originate these advanced Loans before we seek qualification of the corresponding series of LROs; however, it may also originate Loans at any time during the offering process, including after such LROs have been qualified and while such LROs are being offered through the Groundfloor Platform.

LRO holders receive exactly the same rights and benefits, irrespective of whether the underlying Loan was advanced, and the Offering of each series of LROs proceeds in the ordinary course irrespective of whether (or when) the corresponding Loan has been advanced. The LROs are issued once the Offering of the series of LROs is fully subscribed with irrevocable funding commitments. Once this occurs with respect to an advanced Loan, Holdings (or the entity advancing the Loan) will assign or otherwise transfer the Loan (and the related Loan Documents) to GRE 1. GRE 1, as successor and assign, will assume Holdings' security interest and lien position in the underlying Loan and Groundfloor Finance will continue to service the Loan and retain any related Company Fees and Expenses in the ordinary course. We will also modify the Loan Documents at this point, changing the maturity date to match the full term of the LRO (as stated in the corresponding Project Summary). This ensures that the advanced Loan and the corresponding LROs mature at the same time and investors are entitled to the full amount of the expected yield.

GRE 1 will not issue any LROs corresponding to any Loan unless the Offering of the corresponding series of LROs is fully subscribed. In this event (or if for any reason we are unable to qualify the corresponding series of LROs or the offering of such is terminated), the advanced Loan will continue to be held by Holdings (or the entity advancing the Loan), which may elect to sell the Loan to a third party, modify it, or continue to service it as is.

Loan advances are typically funded from one or more lines of credit (such as the credit facility with Revolver, LLC) or borrowing arrangements (such as the ISB Note, as defined below) entered into by Groundfloor Finance or one of its subsidiaries. However, there may also be circumstances that we, Groundfloor Finance or one of its subsidiaries could utilize operating capital for these purposes.

In the case of Loans that are advanced prior to qualification of the corresponding series of LROs, Borrowers may begin work on the Project immediately and, by the time the corresponding LROs are sold, substantial work may have been completed. This would effectively reduce the amount of time the LROs may be held, as the Borrower is now closer to its proposed exit than when LROs were first offered and therefore may be able to prepay the Loan. If the Borrower prepays the Loan as a result, you will receive a lower yield than expected on the LROs purchased.

Lending in Canada

[NewCo Canada] is a single member, LLC, where the [member / manager is Groundfloor Finance Inc. It is formed and domiciled in the province of Alberta. [NewCo Canada] originates real estate loans in Canada. The loans are substantially similar to the type of loans originated or purchased by GRE 1. The loans are underwritten in the same manner described in this Offering Circular, and the underwriting and origination decisions are performed by GFI, as manager of [NewCo Canada]. The loans will be originated in US dollars, meaning that Canadian borrowers will receive funds in US dollars, at the prevailing exchange rate, and they must repay the loan in US dollars, at the prevailing exchange rate. Canadian borrowers may make their own currency hedging arrangements. GRE 1 may elect to purchase these loans for its own books. GRE 1 will then be responsible for loan servicing and administration, as described in this Offering Circular. See "General Terms of the LROs—Administration, Service, Collection, and Enforcement of Loan Documents" below. These loans will be purchased at par, which [NewCo Canada] and GRE 1 have determined to be the fair market value of the loans, meaning [NewCo Canada] will not earn any income from the sale of loans, and all the proceeds of GRE 1's subsequent sale of LROs will go towards offsetting the purchase price. Because the loans will be originated in US dollars, and because all draws and subsequent repayment will be in US dollars, there is no currency risk for GRE 1, and therefore no currency risk for investors who purchase LROs based on loans originated to Canadian borrowers.

Information Made Available through the Project Summaries

Project Summaries. We prepare a Project Summary that is included in the Offering Circular and will be posted on the Groundfloor Platform for every Loan we intend to finance through the issuance and sale of LROs by GRE 1 to investors through the Groundfloor Platform. The information contained in the Project Summary at commencement of the offering of a particular series of LROs, when read together with the remainder of this Offering Circular and the form of LRO Agreement, includes all of the information that we believe to be necessary in order for an investor to make an informed decision as to whether to invest in a particular series of LROs. The Project Summary will remain unchanged over the course of the Offering Period except that, as the offering of a particular series of LROs progresses, the Project Summary will be updated on the Groundfloor Platform to track the number of investors who have committed to purchase LROs to fund the Loan, the amount left to fund the Loan completely and the number of days left in the Offering Period for the specific Project (including any extension). In addition, if a Loan is advanced after the series of LROs corresponding to such loan has been qualified, but before such LROs have been issued, we will notify investors by email within 48 hours of the advance, and update the Project Summary of the advanced Loan on the Groundfloor Platform within the same time period to reflect the status of the Loan. An offering circular supplement will also be filed with the SEC on EDGAR including the revised Project Summary. The Project Summary as posted on the Groundfloor Platform will also be updated to reflect the satisfaction of any of the closing conditions and to notify investors of the commencement of the Withdrawal Period, the suspension (if any) of this Offering Circular, or the abandonment or withdrawal (if any) of the offering of a particular series of LROs. See "—Project Funding and Payment of Expected Yield—Purchase of LROs" below.

We believe that, in order to make an informed investment decision with respect to a particular series of LROs, an investor needs to have access to the Offering Circular and the information that is summarized in the Project Summary for that particular Project. Our goal is to provide this information to investors through a simple and streamlined disclosure process. At the time the Offering commences, the Project Summary for each series of LROs that we offer to investors will include the information illustrated below. The graphic illustrations set forth in Boxes A-I below are for illustration purposes only. The data reflects a “sample” Project and **does not** reflect the terms of any actual Loan (or corresponding series of LROs) that we are offering through the Groundfloor Platform.

Box A



Loan Overview (Box A). This information informs investors of the basic terms of the Loan as follows:

- the name and address of the Project, the name of the Borrower, as the borrowing entity, and of any of its Principal(s);
- the purpose of the Loan (acquisition, renovation, new construction, etc.), the lien position of the Loan (first lien or second lien), and the total amount of the Loan (i.e., the Loan Principal), which corresponds to the aggregate Purchase Amount of the corresponding series of LROs being offered;
- the final letter grade (A through G) resulting from the Grading Algorithm (described below), the fixed annual interest rate assigned to the Loan, the projected term to maturity, and repayment terms of the Loan; which correspond to the Expected Rate of Return and final payment date (plus up to an additional five business days for administrative convenience) of the corresponding series of LROs and provides investors an understanding of whether to expect periodic LRO Payments or a LRO payment in a lump sum (which is typical of a balloon payment).

The overview will also reflect the amount of the Loan remaining to fund (initially reflected as the full Loan Principal), the number of days left in the offering period (initially reflected as 30 days) and the number of investors committed (initially reflected as 0) to purchase the corresponding series of LROs. As previously discussed, these amounts will be updated on the Groundfloor Platform as the offering progresses.

In addition, when viewed through the Groundfloor Platform, an investor can access the following information through hyperlinks (indicated by blue text on the Project Summaries):

- the form of LRO Agreement that investors will agree to if they elect to invest in the series of LROs corresponding to the Loan—the standard form of LRO Agreement applicable to all series of LROs currently being offered—is included in the Offering Circular;
- a map of the location of the Project; and
- a PDF copy of the final Offering Circular and/or applicable PQA (via a link to an SEC “Internal Filing Directory”).

Box B



Financial Overview (Box B). The financial overview presents a graphic illustration of the various financial components of the Project individually, and comparatively, as a whole.

First, the financial overview will reflect the projected valuation of the “as-completed” Project, referred to as the “after repair value” or “ARV.” Groundfloor Finance relies on the Valuation Report (as defined below) to determine the ARV for a Project. The financial overview will also illustrate the total amount of debt on the Project, including the Loan the Borrower will receive from us (and its ranking), as well as any additional debt the borrowing entity has on the property, such as a first lien loan (when our Loan is in a second lien position) or any second lien loans we may permit on the Project (which is not customary). The illustration in Box B reflects the scenario where our Loan (of \$80,000) will be the only debt on the Project, which currently is the most common structure for our financing arrangements.

Box B also reports the loan to ARV ratio, which is calculated by dividing the total amount of debt on the Project (including the Loan from us and any additional debt on the Project) by the ARV (as determined by the Valuation Report) (the “Loan to ARV Ratio”). As discussed in more detail below (see “—Our Loans to Borrowers—Credit Risk and Valuation Assessment—The Grading Algorithm”), the Loan to ARV Ratio is a significant factor in the Grading Algorithm.

The financial overview also reflects the anticipated amount of the total project costs, both in actual value (in terms of dollars) as well as relative to the total amount of debt on the Project (through the presentation of the ratio of loan to total project costs). “Total project costs” means the total amount of money needed to complete the Project, including all amounts borrowed from us or third parties, plus the “skin-in-the-game,” which is the amount of the Borrower’s money that is tied up in the Project after completion of our Loan, and any other equity contributed to the Project by parties other than the Borrower. (Groundfloor Finance and its affiliates, including GRE 1 do not typically finance Projects with third-party equity.) Under no circumstances will our Loan exceed the total project costs for a Project as set forth in the applicable Project Summary.

The financial overview also reflects the magnitude of the cushion that is built into the Project. For these purposes, cushion means the difference between the total project costs and the ARV. More cushion means there is greater flexibility in the selling price of the property and thus less risk of default on payment of the Loan. The financial overview also reflects the purchase price of the property and the date the property was purchased. If the Loan will cover acquisition costs or if the property will be purchased after commencement of the Offering of the corresponding series of LROs, the data will reflect the projected purchase price and a purchase date that is to be determined. We present data related to total project cost, cushion and the purchase price to provide investors greater insight into the structure of the overall Project contemplated by the Loan we will finance; however, these items are not among the factors considered as part of the Grading Algorithm.

The financial overview also reflects the “skin-in-the-game” (or how much of the Borrower’s money that is tied up in the Project after funding the Loan) in terms of actual dollars contributed and the degree to which that commitment covers or extends beyond the original purchase price of the Project. For example, the illustration in Box B shows that the property was acquired for \$44,000 in July 2014 and the Borrower is seeking an \$80,000 Loan from us to renovate the property. Total project cost is equal to \$124,000, which is projected to result in a Project with an ARV of \$175,000. The graphics in Box B illustrate that the Borrower (and its Principal) intends to proceed without contributing any additional cash to complete the renovations and that the entire renovation is being carried by our Loan. The Borrower could put more cash to work in addition to simply contributing the property itself, in which case the purchase price value would be less than the value represented by the “skin-in-the-game” bar, indicating that some of the Borrower’s capital is going to work on this Project in addition to our Loan. Alternatively, the Borrower could use some of the Loan to offset a portion of the purchase price of the property, works completed, or equity. In the case where purchase price is being offset, the purchase price value would be greater than the value represented by the “skin-in-the-game” bar and the amount of “skin-in-the-game” credited to the Borrower for purposes of the Grading Algorithm would be reduced by an amount corresponding to the offset, resulting in a lower raw score for the Loan (see below under “Description of the Business of GRE 1 and Groundfloor Finance—Our Loans to Borrowers—Credit Risk and Valuation Assessment—The Grading Algorithm—‘Skin-in-the-Game’”). Similarly, if a Borrower is offsetting works completed or equity, we are crediting against capital the Borrower has already put into the Project or property appreciation that has occurred since its acquisition, respectively. In each case, we are using a portion of the Loan Proceeds to refinance value that has already been created before Groundfloor originated the Loan. As discussed in more detail below (see “—Our Loans to Borrowers—Credit Risk and Valuation Assessment—The Grading Algorithm”), the amount of skin-in-the-game in relation to the amount of debt on the Project is a factor impacting the Grading Algorithm.

Box C



Grading Factors (Box C). We use a graphic illustration to reflect how the Project scored on certain of the factors taken into account when determining the final letter grade through the Grading Algorithm. For example, if a specific factor is rated on an 8 point scale, and the specific factor in question for a particular Project was rated at the 5th level, Box C will show a score of 5 for that particular factor. We present this information so that investors can compare factors across Projects with similar grades and isolate and compare key factors that bear on the Grading Algorithm. Generally speaking, the higher the rating, the better the Loan scores.

Box D



Valuation Reports (Box D). We identify the projected value of the Project (typically reflecting the ARV) and the type of Valuation Report received to support that determination. Prior to determining the letter grade and corresponding interest rate we will apply to a Loan, the underwriting team always reviews materials supporting the projected valuation of the Project as reported by the Borrower in its Application (the “Valuation Report”). Groundfloor Finance accepts four basic types of Valuation Reports: a certified independent appraisal, a broker’s price opinion (a “BPO”), a Borrower provided appraisal or a list of comparable properties provided by the Borrower (referred to as Borrower provided comps). As discussed in more detail below, not all Valuation Reports are of the same quality or reliability, which is accounted for in the Grading Algorithm and the grade and corresponding interest rate applied to the Loan. (See “—Credit Risk and Valuation Assessment—The Grading Algorithm—Determination of Raw Score—Quality of Valuation Report”).

Box E

Property Description (Box E). The Project Summary also features a Property Description, showing the property on a map (which is a hyperlink when accessed through the Groundfloor Platform), describing the facts of the property (type of structure, size, location, etc.) and briefly detailing the nature of the Project.

Box F

Property Photos (Box F). We may also include photographs of the property, floor plans, architectural drawings and renderings in Box F. Items of this nature are not required as part of the due diligence and underwriting process and are not material to our decision to fund a Loan. Copies of each picture included on the Project Summaries through the Groundfloor Platform are also included in this Offering Circular, beginning on page PS-1. We include them on the Project Summaries, if available, for informational purposes only. We believe information of this nature may be of interest to visitors to the Groundfloor Platform, as it helps them to visualize and to distinguish different Projects.

Box G

MISCELLANEOUS

PROJECT SPECIFIC RISK FACTORS

- We advanced the Borrower the money it needed to purchase this property on December 5, 2016 through a wholly owned subsidiary. The Borrower is now in possession of the property. If this offering is fully subscribed, the property will be assigned to us from the subsidiary, and we will continue to administer and service the loan per the terms of our Offering Circular. Some of the proceeds from the sale of LROs will be used to repay the subsidiary for the portion of the loan it has already advanced.
- The renovation of the property may be extensive, and therefore subject to delays and other unexpected issues.
- The renovation will require permitting, and permits may not be obtained on time or may be denied.
- Please consult the [Offering Circular](#) for further discussion of general risk factors.

CLOSING CONDITIONS

- Loan is conditioned upon a clean title search and valid title insurance at the time of close.

DEVELOPER FEES

- GROUND FLOOR generally charges borrowers between 2% and 6% of the principal amount of the loan for our services.
- GROUND FLOOR does not take a 'spread' on any part of the interest payments.
- Developers may capitalize the cost of closing into the principal amount of their request. These closing costs typically range from \$500 to \$1500.
- Unless otherwise limited by applicable law, GROUND FLOOR will charge a penalty of 2% for any extension made to the borrower. See GROUND FLOOR Fees and Expenses' in the [Offering Circular](#).

SEC FILING INFORMATION

- The series of LROs corresponding to this Project are offered pursuant to the Offering Circular dated January 24, 2017 (each, as amended and supplemented from time to time), including the documents incorporated by reference therein. You may access and review these documents on the [Internal Filings Directory](#) located on our Platform.

Miscellaneous Information (Box G). Each Project Summary also identifies the investment risks specific to the Project and identifies any financing conditions that must be satisfied before the Loan will be funded (typically limited only to receipt of a clean title search; it being customary to obtain title insurance at closing of the Loan). The Project Summary also includes information about fees we charge Borrowers, certain cautionary language and a hyperlink (which is active on the Groundfloor Platform) to this Offering Circular and/or the appropriate PQA or supplement covering the corresponding LRO (via a link to a SEC "Internal Filing Directory").

Box H

BORROWER SUMMARY UNLESS NOTED WITH A *, INFORMATION BELOW IS SUPPLIED BY THE BORROWER AND IS NOT VERIFIED. BORROWERS REPRESENT AND WARRANT THAT INFORMATION SUPPLIED IS ACCURATE.

HOUSE RENOVATION LLC

DATE OF FORMATION *

10/01/2010

FINANCIAL DATA
Reporting date: 12/31/16

Value of Properties	Total Debt
\$4M	\$2.8M
Unsold Inventory	Aged Inventory
20	5

PROJECTS / REVENUE
Reporting period: 2016

Completed Projects	Revenue
4	\$3.2M
Gross Margin %	
32%	

PRINCIPAL
John Flipp

FOCUS
Fix & Flip

GROUND FLOOR HISTORY *

Loans Funded	Loans Repaid
4	3
On Time Repayment	
100%	

HISTORICAL AVERAGES
Reporting period: three years ending 2015

Completed Projects Per Year	Average Project Revenue
12	\$150K
Average Project Time	Average Total Project Costs
12 months	\$100K

Borrower Summary (Box H). Each Project Summary also presents information designed to provide investors certain historical and financial information about the Borrower, as well as its Principal(s) (by reflecting certain historical information about other real estate development businesses the Principal operates). This information, much of which is self-reported and not verified by us or by Groundfloor Finance in the course of its due diligence and underwriting process, is not designed to provide comprehensive disclosure about the Borrower or its Principals. See “Our Loans to Borrowers—Due Diligence and Authentication—Unverified Information” below.

As illustrated in Box H, we provide:

· Information about Borrower:

- o *Formation.* We include the name and the date of formation of the borrowing entity.
- o *Selected Financial Data.* To provide a general snapshot of the financial position of the Borrower, we report the market value of all of the Borrower’s owned properties (as the “value of properties”) and the Borrower’s then current long and short term debt (as the “total debt”), each as of the most recently completed quarter (i.e., September 30, 2017). We also report the number of projects that are available for sale or rental (as the “unsold inventory”) and the number of projects that have been available for sale or rental for six months or more (as the “aged inventory”), each as of the most recently completed quarter. The value of the unsold inventory as well as any outstanding debt thereon will be reflected in the amounts reported under value of properties and total debt for the quarter. However, the value of properties and total debt may include amounts attributable to other properties owned by the Borrower. We also report the following data, in each case with respect to the prior calendar year (i.e., 2016):
 - the number of real estate projects the borrowing entity successfully completed during the year (through the Groundfloor Platform or otherwise)—When we refer to a project being “successfully completed,” we mean that the property has either been sold or rent stabilized (it has been rented for at least 75% of the time since the reported completion date);
 - the total revenue earned by the borrowing entity from real estate projects during the year; and
 - the gross margin for the year. Expressed as a percentage, gross margin reflects the excess of total revenue earned by the Borrower during the year over total project costs for the year. For example, with self-reported revenue of \$3,200,000, a self-reported gross margin of 32% indicates total project costs of about \$2,176,000 (with excess revenue of about \$1,024,000, or 32% of \$3, 200,000). A higher gross margin suggests there is more cash flowing from projects, which should allow for more cash available to pay down debt.

None of this information reflects the individual financial position of the Principal or that of any other entities that are operated by the Principal. All of this information is self-reported by the Borrower and none of it is verified by GRE 1 or by Groundfloor Finance. See “Our Loans to Borrowers—Due Diligence and Authentication—Unverified Information” below.

· Information about the Principal.

- o *Focus.* We include the name of the individual and his or her “focus,” meaning the type of projects that the Principal has historically developed. (Information with respect to the Principal’s focus is self-reported by the Borrower and is not verified by us or by Groundfloor Finance.)
- o *Groundfloor History.* We present information about the performance on loans the Principal has financed through the Groundfloor Platform. We collect our internal data with respect to all loans we have provided to any entity operated by the Principal (including the Borrower under the Loan) since Groundfloor Finance began operations and report: (1) the total number of loans funded, (2) the total number of loans that have been repaid, and (3) performance record with respect to on-time repayment of the loans (reflecting the percentage of the loans that were repaid on time).
- o *Historical Averages.* We also present information reflecting recent past experience of the Principal in the real estate development industry. We present the average number of real estate development projects that the Principal has successfully completed (either through the borrowing entity or any other entity he or she operates) over a certain period of time (Box H reflects a three-year reporting period). We also report the average length of time it took to complete those projects over the same reporting period, the average amount of revenue earned (in terms of sales price or rental income on a per project basis), and the average total project costs (on a per project basis). All of this information is self-reported by the Borrower and none of it is independently verified by us or by Groundfloor Finance.

Materials Not Provided to Investors. As discussed in more detail below, when making a determination as to whether to underwrite a particular Loan, Groundfloor Finance (acting on our behalf) considers the information provided by the Borrower with its Application, such as appraisals or comps, zoning applications, permits, environmental studies, proof of insurance, project assessment reports, budget/Draw schedule and material agreements with any general contractors or subcontractors, etc. In the course of its diligence, Groundfloor Finance also collects additional information, such as an independently commissioned appraisal or BPO, automated valuation models, business assurance reports, credit score reports, etc., which are used to assess the Project and proposed Loan and to verify the information provided by the Borrower. Since all of the Loans offered for financing through the Groundfloor Platform satisfy the basic qualifications and financing requirements, investors are not provided access to all of the materials considered in the due diligence and underwriting process. We believe providing access to all of this information would prove overwhelming and confusing to investors. In addition, although financial information (such as balance sheet information) and/or tax returns may be received over the course of the Application and due diligence and underwriting process, we do not provide these materials to investors. These materials may be unreliable and, in many cases do not provide an accurate or complete picture of the financial condition of the Borrower, its Principals or any affiliated entities, such as subsidiaries, parents, or sister companies. This information is not considered over the course of our due diligence and underwriting process or when determining the final letter grade set through the Grading Algorithm. We do not rely on these materials (even when made available) to verify the limited financial information presented in the Project Summaries (discussed above) because these materials have not been independently verified (most financial materials received have not been reviewed or audited and the tax returns prepared without any accountant oversight). In addition, the materials provided may not track the data we report in the Project Summaries. For example, the financial information may cover only some of the entities controlled by the Principal, it may exclude the borrowing entity or may not cover the reporting period we are targeting.

We will not disclose the contact information, financial information (other than the limited financial data reflected on the Project Summaries discussed above), or credit score of the Principals or any other information that may be protected by privacy laws.

Box I

PROJECT COMPARISON TOOL			
	A	B	B
LOAN DIFFERENCES	INVEST REMOVE	INVEST REMOVE	INVEST REMOVE
	<small>Click here to view the LRO Agreement</small>	<small>Click here to view the LRO Agreement</small>	<small>Click here to view the LRO Agreement</small>
LOAN SUMMARY	345 LUCKIE AVENUE SOUTHWEST	520 SOUTHLANDINGS DRIVE	504 LYLE ROAD
ADDRESS	1145 LUCKIE AVENUE SOUTHWEST, ATLANTA, GA 30303	520 SOUTH LANDINGS DRIVE, FORT WORTH, TX 76109	504 LYLE ROAD, HANNAH, SC 29408
BORROWER	SLP LLC	Calico, LLC	The Bryan Kelly Crabtree and Bethel Anne Crabtree Joint Living Trust
RATE	7.4%	9.6%	8.5%
PROJECTED TERM (MONTHS)	12	12	12
LOAN TO VALUE	79.0%	53.9%	81.8%
REMAINING AMOUNT / DAYS	\$26,790 / 6	\$247,870 / 14	\$52,240 / 7
INVESTORS	387	179	297
PURPOSE	Acquisition & Renovation	Acquisition & Renovation	Acquisition & Renovation
LOAN POSITION	Senior	Senior	Senior
TARGET LOAN AMOUNT	\$280,800.00	\$372,000.00	\$133,400.00
GRADE FACTORS	345 LUCKIE AVENUE SOUTHWEST	520 SOUTHLANDINGS DRIVE	504 LYLE ROAD
LOAN TO AVY SCORE	██████████	██████████	██████████
QUALITY OF VALUATION REPORT	██████████	██████████	██████████
SHIN IN THE GAME	██████████	██████████	██████████
LOCATION	██████████	██████████	██████████
BORROWER EXPERIENCE	██████████	██████████	██████████
BORROWER COMMITMENT	██████████	██████████	██████████
FINAL LOAN GRADE	A	B	B
VALUATION	345 LUCKIE AVENUE SOUTHWEST	520 SOUTHLANDINGS DRIVE	504 LYLE ROAD
AFTER REPAIR VALUE (ARV)	\$404,000	\$410,000	\$225,000
ARV BASED ON	Certified Independent Appraisal	Certified Independent Appraisal	BPO
	INVEST	INVEST	INVEST
	<small>Click here to view the LRO Agreement</small>	<small>Click here to view the LRO Agreement</small>	<small>Click here to view the LRO Agreement</small>

Loan Comparison Tool (Box I). Investors may access a Loan Comparison Tool through the Groundfloor Platform. The Loan Comparison Tool allows investors to easily compare Projects offered under Regulation A through the Groundfloor Platform side by side, relative to multiple data points. To activate the tool, an investor selects the Projects they want to compare from the general landing page that identifies the Projects that are being offered for investment through the Groundfloor Platform (which may include those that are offered by other subsidiaries of Groundfloor Finance). Then, the investor clicks the Loan Comparison Tool button. A modal then appears that pulls key data about the selected Projects from their corresponding Project Summaries and presents that information in a tabular format (as represented in Box I). The Loan Comparison Tool does not include any of the information reflected in Box H above.

Investor Onboarding

You must register on the Groundfloor Platform and create a Groundfloor account before you can purchase any LROs. If you are a natural person, you must be at least 18 years of age and a U.S. resident. You may establish a separate account to make investments from a self-directed IRA or 401(k) account. When registering, you must agree to the Groundfloor Platform terms of service (the “Terms of Service”), including consent to receipt of disclosures electronically, and the Groundfloor Platform privacy policy (the “Privacy Policy”). To create an account, you must provide your name, address, and email address. An entity must provide the name of the entity, its address, and the name and email address of a contact person.

Before you may purchase one or more series of LROs, you must provide your Social Security number or taxpayer identification number and must consent to any applicable tax withholding statements. You must also agree to the rules, limitations, processes and procedures for originating, servicing and collecting Loans and for purchasing LROs through the Groundfloor Platform. These provisions are collectively contained in the Investor Agreement and the terms and conditions attached thereto (the “Terms and Conditions”), the Terms of Service and the Privacy Policy. You must also agree to the terms of the LRO Agreement corresponding to the particular Loan and the series of LROs you want to purchase when making a commitment to purchase such securities. (We refer to the Investor Agreement, including its Terms and Conditions, the Terms of Service, Privacy Statement and any LRO Agreement you may enter into as the “Investment Documents.”) We advise each investor to read all of the applicable Investment Documents before purchasing any LROs.

In addition, in connection with purchasing LROs, you must represent that you reside in a state where the LROs are registered or qualified, you satisfy applicable investor suitability requirements, and you have received the Offering Circular, which includes a discussion of the risks associated with the investment in the LROs under the “Risk Factors” section, as well as the PQA covering the LROs being purchased and all other applicable supplements and PQAs to the Offering Statement.

Investor FBO Accounts

You must register on the Groundfloor Platform and create a funding account maintained on the Groundfloor Platform before you can purchase any LROs. This funding account is a non-interest bearing demand deposit pooled account currently established at the FBO Servicer, Wells Fargo, “for the benefit of” all Groundfloor Investors (the “Groundfloor Investor FBO Account”). As discussed in more detail below, during the closing process, we also utilize a separate non-interest bearing demand deposit pooled account established “for the benefit of” purchasers of LROs to be issued by GRE 1 (the “GRE 1 Investor FBO Account”). Currently, Wells Fargo acts as the FBO Servicer for the Groundfloor Investor FBO Account and for the GRE 1 Investor FBO Account (collectively, the “Investor FBO Accounts”). We or Groundfloor Finance may change the identity of the FBO Service Provider where any of the Investor FBO Accounts are maintained at any time without prior notice to investors (we will post the name and address of the institution where we maintain the Investor FBO Accounts on the Groundfloor Platform and notify investors by email in the event the institution where any Investor FBO Account is maintained is changed). Investors have no direct relationship with the FBO Servicer in connection with the Investor FBO Accounts. Groundfloor Finance is the owner of the Groundfloor Investor FBO Account and GRE 1 is the owner of the GRE Investor FBO Account. However, each entity disclaims any economic interest in the assets in either of the Investor FBO Accounts and also provides that each investor disclaims any right, title or interest in the assets of any other investor in either Investor FBO Account.

Each Investor FBO Account is FDIC-insured on a “pass through” basis to the individual investors, subject to applicable limits. This means that each investor’s balance is protected by FDIC insurance up to the limits established by the FDIC. Other funds that the investor has on deposit with the FBO Servicer, for example, may count against any applicable FDIC insurance limits. While investor funds are commingled with funds from other investors, the funds from each investor are separately accounted for on separate ledgers maintained for GRE 1 and for Groundfloor Finance. None of GRE 1’s corporate funds, Groundfloor’s corporate funds, or any corporate funds of any of our affiliated companies are ever held or commingled with the assets of investors in the separate Investor FBO Accounts. There are no restrictions on funds held in the funding account, and we, Groundfloor Finance and its affiliated companies disclaim any economic interest in such funds.

Each investor may transfer funds into its Groundfloor account by authorizing an electronic transfer using the ACH network from the investor’s designated and verified bank account (or other means that may be permitted by the Funds Transfer Agent (as defined below)) to its funding account. Your pro rata share of any LRO Payments are also deposited directly into your funding account. Currently, Groundfloor Finance has contracted with Dwolla, Inc. to be the funds transfer intermediary among investors, the Groundfloor Platform, and accounts controlled by it any by GRE 1 (the “Funds Transfer Agent”). Groundfloor may change the identity of the Funds Transfer Agent at any time without prior notice to investors. (See “—Project Funding and Payment of Expected Yield—Purchase of LROs” below.)

Each investor can view its cash positions in their funding account (i.e., both Investor FBO Accounts), through an “Investor Dashboard” maintained on the Groundfloor Platform. These website features are effectively virtual sub-accounts. These recordkeeping sub-accounts are purely administrative and reflect balances and transactions concerning the funds in each of the Investor FBO Accounts. The Investor Dashboard allows investors to track and report funds committed to purchase LROs, as well as payments received from us (and other affiliated companies) related to LROs previously purchased, and to withdraw non-binding commitments (prior to expiration of the applicable Withdrawal Period) or uncommitted funds from its Groundfloor account.

Funds of an investor stay in the Groundfloor Investor FBO Account indefinitely unless the investor takes steps to transfer non-irrevocably committed funds out of its funding account. Such funds may include:

- funds in the investor’s sub-account never committed to purchase LROs;
- funds committed to the purchase of LROs (before they become irrevocably committed to purchase LROs); or
- payments received related to LROs previously purchased.

Only funds irrevocably committed to purchase LROs are held in the GRE 1 Investor FBO Account.

An investor must transfer funds held in its funding account to its own bank account to utilize the funds in any way other than investment in LROs. Upon request, Groundfloor will cause the Funds Transfer Agent to transfer funds in the Investor FBO Account to an investor's verified bank account by ACH transfer, provided that such funds are not irrevocably committed to the purchase of LROs. (See “—Project Funding and Payment of Expected Yield—Purchase of LROs.”) An investor may transfer funds out of its Groundfloor account at any time (provided that such funds are not irrevocably committed to the purchase of LROs). Investors may withdraw non-binding commitments at any time before the expiration of the Withdrawal Period by accessing their Investor Dashboard and selecting “request withdrawal”. Funds withdrawn before the expiration of the Withdrawal Period will be released and made available in the investor's funding account typically within 48 hours. Investors may withdraw uncommitted funds by accessing their Investor Dashboard on the Groundfloor Platform and selecting the option to move uncommitted funds held in the funding account back to their personal bank account. This transfer typically takes three to five business days to complete.

Account Servicing

Groundfloor Finance handles payments to and from the Borrower and payments on LROs to our investors on our behalf. Heavy transaction volume into and out of the various accounts it maintains could increase the risk of bookkeeping and recordkeeping errors. Because payments flow through various financial intermediaries (such as the Funds Transfer Agent and the FBO Servicer), there is an auditable trail of money movement, and, in the case of a bookkeeping error, we believe Groundfloor Finance will be able to recreate transaction histories in order to correct the error. Groundfloor Finance maintains a sub-ledger with respect to each of our accounts that records all movements of funds into and out of each account, which is periodically reconciled with records of bank transaction history, as well as records on the Groundfloor Platform. Groundfloor performs nightly backups of its entire system, including transaction records of the Funds Transfer Agent and FBO account records.

Our Loans to Borrowers

Evaluation of Project Applications

GRE 1 relies on Groundfloor Finance to make underwriting decisions with respect to the Loans that are being funded through the sale of LROs. There is no guarantee that financing will be made available to Borrowers who apply for Loans through the Groundfloor Platform. Obtaining a “Quick Rate Quote” does not obligate us or Groundfloor Finance to proceed further with any Borrower. Groundfloor may decline an Application and refuse to finance a particular Project in its sole discretion and for any or no reason.

Completed Applications must first pass through Groundfloor's due diligence and underwriting review process. The underwriting review process is similar to what a bank might undertake in determining whether to provide a home equity loan. First, Groundfloor Finance undertakes a preliminary assessment of an Application to confirm that it does not trigger any automatic disqualification conditions and, if not, to determine whether it clears due diligence procedures and satisfies the basic financing requirements. See “—Preliminary Assessment” below. Groundfloor conducts additional analysis on those Applications that pass the preliminary assessment using the proprietary Grading Algorithm to set the minimum pricing terms (interest rate, maturity, repayment schedule, etc.) that we will accept. See “—Credit Risk and Valuation Assessment—The Grading Algorithm” below.

Preliminary Assessment

Designed to identify those Projects that meet basic qualifications and financing requirements, the preliminary assessment involves a general review of the information and materials received with the Application as well as supplemental materials Groundfloor may obtain in the course of diligence.

Automatic Disqualification. Currently, Applications are automatically disqualified if:

- the property is owner occupied (owner-occupied residential projects are not financed and Loans will not finance any personal, family, or household purpose. All Loans are commercial in nature);
- one or more business assurance reports or public records obtained and reviewed in the course of diligence identifies, that, within the past 12 months of the date of the Application, either the Borrower or any of its Principals:
 - o has filed for bankruptcy,
 - o has had an adverse legal judgment imposed against any property under his/her/its control, and
 - o has any property currently in foreclosure, subject to a foreclosure proceeding or foreclosed upon, or has had a lien that is in the process of being, or has been, acted upon in a court or other governmental agency;

- the borrowing entity is not a U.S. or Canadian domiciled entity, organized in one of the 50 states or 10 provinces and three territories;
- no Principal of the Borrower is domiciled and resident in the U.S. or Canada;
- any Principal of the Borrower is younger than 18 years of age;
- any Principal of the Borrower has been convicted of a felony involving fraud, deceit or dishonesty within five years of the date of the Application, including, without limitation, racketeering, forgery, embezzlement, obtaining money under false pretenses, larceny, or conspiracy to defraud;
- any Principal of the Borrower has a FICO credit score of less than 500; or
- the proposed loan term is longer than five years.

Where a Borrower is owned or operated by more than one Principal, these assessments are undertaken with respect to each individual to confirm there are not present any factors that would trigger automatic disqualification of the Application.

The Grading Algorithm. After an Application clears the automatic disqualification criteria, the Application is processed through Groundfloor Finance's proprietary credit risk and valuation assessment (which we refer to as the Grading Algorithm) to determine the letter grade and interest rate that will be applied to the Loan. Underwriting sets the terms of the Loan (term, letter grade, interest rate to be applied, repayment schedule, etc.) based off of this Grading Algorithm. See “—Credit Risk and Valuation Assessment—the Grading Algorithm” below.

Underwriting Criteria and Internal Policies. Finally, Groundfloor Finances considers whether to approve the Application in light of certain underwriting criteria and internal operational policies. These policies reflect Groundfloor's business objectives in light of the needs of the marketplace created on the Groundfloor Platform at a given time and do not impact, and are not related to, the determination of the letter grade or interest rate applied to a particular Loan. Groundfloor Finance (as agent for GRE 1 in certain circumstances) will underwrite any Loan that: (1) is not automatically disqualified; (2) for which the Borrower has a completed Loan Application; (3) is in a jurisdiction in which Groundfloor Finance has decided to lend; (4) is in a geography in which Groundfloor Finance is not over-concentrated; (5) is a property that is desirable to the local market; and (6) for which the Borrower has accepted what Groundfloor Finance views to be appropriate leverage.

Geographic concentration is dependent on the size of the local market. For example, having 10 outstanding Loans in a town of 50,000 may be deemed over concentrated, but having 50 outstanding loans in a major metropolitan area may be deemed acceptable. Likewise, a given property's desirability changes with the local market. An urban starter house may be highly desirable in a fast growing city, but a larger suburban home may be better suited in a more mature locale. Groundfloor Finance's idea of acceptable market concentration and property desirability changes with its assessment of local and macroeconomic conditions. In all Loans, Groundfloor Finance will urge Borrower's to accept lower leverage. This increases the personal expenses of the Borrowers, as they must put their own capital to use. Because not every Borrower accepts this request, Groundfloor Finance will prioritize underwriting and taking to market loans where the Borrower has accepted lower leverage.

The Groundfloor Finance underwriting team meets regularly to assess the current Loan portfolio and pipeline, to make adjustments, as necessary, to underwriting decisions. The members of the underwriting team currently include Groundfloor Finance's CEO, Brian Dally; Executive Vice President, Legal and Regulatory, Nick Bhargava; Director of Underwriting, Patrick Donoghue; and Head of Risk Management, Rich Pulido.

Due Diligence and Authentication

Borrowers must represent and warrant to us in the Loan Agreement that none of the disclosures, statements, projections, materials, assertions or other communications made by them or provided to us contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statement contained herein or therein not misleading. Notwithstanding these assurances, through the use of commercially reasonable efforts, Groundfloor Finances take steps on our behalf to verify and authenticate certain information provided and representations made by Borrowers. Licensed attorneys and/or real estate professionals are engaged to assist in the due diligence and closing process. For every Loan underwritten, Groundfloor Finance obtains a completed Application and a signed Master Services Agreement from the Borrower and reviews the materials provided by the Borrower. Various data vendors such as Zillow, CoreLogic, Trulia, Lexis, CDI Credit, Dun & Bradstreet, etc., and other public records are used to verify the information provided, as well as the accuracy of the representations made, by the Borrower (and its Principals) as well as the actual property details. Groundfloor Finance conducts credit, criminal background, bankruptcy and legal judgment searches on the Borrower and its Principals. It obtains business assurance reports and searches state and local records to determine whether an Application triggers any of the automatic disqualification criteria described above. Groundfloor Finance also assesses whether the Borrower or its Principals have any criminal convictions, federal tax liens, judgments, or other encumbrances and have not been party to any adverse litigation relating to their projects or properties. It checks state and local records to verify how long the Borrower has been in business and whether it is in good standing and confirms that the Borrower is actually in possession of the property and the extent to which it has been encumbered. Groundfloor also may obtain proof of insurance and marketability assessments from the Borrower when environmental concerns arise.

Prior to closing, Groundfloor Finance will review a budget/Draw schedule (unless the Loan is for \$50,000 or less or when an amount greater than \$50,000 is needed for the acquisition of a property) and, at or in connection with closing, obtain evidence of a satisfactory title search and corresponding title insurance on the property covered by the Loans. If we are financing a second lien Loan, the Borrower may provide the results of a title search performed, and title insurance obtained, by the first lienholder within a month of the submitted Application in lieu of performing a separate title search and obtaining title insurance. Decisions as to whether additional information may be sought are made by Groundfloor during the course of its underwriting process.

Valuation Reports. A Valuation Report for each Project is always reviewed prior to determining the letter grade and corresponding interest rate to be applied to a Loan. In the case of a Loan to finance acquisition and/or reconstruction (which is a majority of our Loans), the Valuation Report will reflect an estimate of the projected ARV of the Project. The Valuation Report reflects the projected value of the land if the Loan is to finance ground-up construction. As discussed in more detail below, the valuation of the Project weighs heavily in the Grading Algorithm and the determination of the final letter grade (and thus the minimum interest rate) assigned to a particular Loan. As such, during the course of its underwriting process Groundfloor carefully reviews each Valuation Report received. Groundfloor may refuse to accept a Valuation Report that it finds unsatisfactory, inaccurate or unreliable, in which case, we will not consider financing the related Loan until the deficiencies are remedied or a new Valuation Report is received. The evidence used to calculate the ARV for a given Loan may be made up of a composite of different Valuation Reports of the same type at the discretion of the underwriters. For example, ARV may be determined by utilizing a composite of two or more BPOs, if available. We will not use composites from different types of Valuation Reports.

For Loans under \$250,000, Borrowers may choose the type of Valuation Report they want considered in the underwriting process. Groundfloor may commission (at the Borrower's expense) a certified independent appraisal or a BPO on the Project or the Borrower may provide a Borrower provided appraisal or a collection of comparable property listings (or "comps"); however, Groundfloor will always commission a certified independent appraisal for Loans of \$250,000 or more.

Reliance on Borrower Provided Comps. Due to the costs associated with the preparation of a certified independent appraisal or a BPO, Borrowers often elect to provide a list of comparable properties to support the projected ARV of a Project. These types of Valuation Reports are viewed as the lowest quality and least reliable of the four types of Valuation Reports accepted. The Grading Algorithm factors in the increased risk associated with these types of Valuation Reports. However, in light of the significance placed on the ARV in determining the letter grade and minimum interest rate applied to the Loan, Groundfloor Finance has established the following set of conditions that must always be satisfied when a Borrower elects to support its Application with Borrower provided comps.

Requirements for Use of Borrower Provided Comps. Borrowers must supply information with respect to no less than three comparable properties (although more than three comps will be accepted) to support the projected ARV claimed by the Borrower. With respect to each comparable property received, Groundfloor first locates the listing of that comparable property from a Multiple Listing Service (or "MLS"), which is a kind of bulletin board that identifies recent local real estate listings. It uses the MLS listing to confirm that the information presented by the Borrower is accurate (i.e., it has not been altered). If the comp information provided by the Borrower is different from what Groundfloor finds in the MLS listing, Groundfloor will not consider financing the related Loan until the inaccuracies are corrected or the Borrower provides Groundfloor with a new comparable property that satisfies our criteria (or a more reliable form of Valuation Report with respect to the Project under consideration).

In limited circumstances, Borrowers may rely on a comparable property for which there is no MLS listing, which can be the case if the comparable property has not been recently listed for sale. In this event, Groundfloor utilizes an online valuation tool called an automated valuation model (or "AVM") to produce a report which is used to verify the comp. The AVM report is a tool often used by banks and other lending institutions in the course of their underwriting procedures. It provides a calculated estimate of a probable selling price of a residential property, even when a home is not for sale, through the analysis of public record data combined with a computerized algorithm. Groundfloor currently obtains AVM reports from Red Bell Real Estate and Clear Capital, but may change vendors at any time without prior notice to investors. Groundfloor uses the AVM report in much the same way as it uses the MLS listing, inasmuch as, if the information provided by the Borrower is inconsistent with respect to the information in the AVM report, Groundfloor will not consider financing the related Loan based off of the flawed information.

Once the information provided by the Borrower with respect to the comparable property has been confirmed through the MLS listing or the AVM report, as the case may be, the comparable property must also:

- be representative of the Project—this means that the comparable property must be of the same scope as the Project on an as-completed basis. For instance, if as-completed, the Project will be a three bedroom, two bath, single-family residence, on a half-acre lot, without any special features (like a multi-car garage, in-ground swimming pool, etc.), then the comparable property generally must be substantially similar to those characteristics;
- be located in the same zip code or, only to the extent available, the same school district as the Project; and
- reflect a value not less than 85% of the ARV of the Project as reported by the Borrower. For instance, if the ARV of the Project is estimated to be \$100,000, the MLS listing or the AVM report, as the case may be, for the comparable property must reflect a value of \$85,000 or more. Groundfloor would not accept a comparable with less than \$85,000 to support the valuation of the Project at an ARV of \$100,000.

If any of these conditions are not satisfied, Groundfloor will reject the Application, and not consider financing the Loan until the Borrower provides a new comparable property (that satisfies the criteria) or Groundfloor obtains another form of Valuation Report.

Reliability of Information. When undertaking its diligence, Groundfloor strives to source data from the most reputable and reliable vendors and resources, however, this data may not always be accurate or dependable. For example, Zillow and AVM vendors determine their estimated property valuations through statistical analysis of historical data and current market information. There may be errors in the underlying data used in the calculation of these estimates, which could compromise the reported property valuation. Further, in addition to the risks discussed above specifically with respect to Borrower provided comps, the reliability of the data contained in the Valuation Reports (and any resources used to judge those reports) depends, in part, on the methods used to collect the data, the expertise of the third party that prepared the report, as well as the appropriateness of the valuation approaches and underlying assumptions that have been used to reach the conclusions presented. Although the Valuation Reports received (other than Borrower provided comps) typically are prepared by real estate professionals who are familiar with the market area of the subject Project, they may not reflect the actual value of a particular project. Only market forces will dictate the ultimate value of any real property.

Although Groundfloor uses various valuation resources to provide a backstop comparison to the Borrower provided comps as part of its due diligence process, these typically report the *listing price* or estimated *market value*, as opposed to the proposed *ARV* typically captured by a Valuation Report. As a result, none of those valuation resources offer a direct comparison. Groundfloor's ability to access the reports to backstop the Borrower provided comp can be limited, as some MLS systems restrict access to licensed real estate brokers and Groundfloor must pay additional fees for AVM reports. There are also increased risks with certain valuation resources in that there could be flaws in the mathematical model being implemented. For instance, the model may depend on unreliable or inaccurate data, or fail to test results against other valuation models or actual sales data in the particular market. Care must also be taken to select a vendor that offers tools that are better suited to certain kinds of lending. For example, unlike our current vendor, CoreLogic, which primarily delivers specific valuation data, other AVM vendors, like Desktop Underwriter®, provide additional services, such as document management and benchmarking against federal loan data, which may alter the context of the report.

The Valuation Reports and any AVMs Groundfloor may obtain are generally prepared solely for its use in connection with our Loan underwriting process, so we do not provide them to investors. Neither we nor Groundfloor Finance (or its affiliated companies) play any role in the preparation of any valuation resources or any other materials provided by the Borrower that may be referenced in a Project Summary, and, while we view the data contained in a Valuation Report, MLS listing, AVM report or other valuation resource as helpful, we do not use these materials as the sole basis for a funding decision.

Unverified Information. Other than as discussed above, neither we nor Groundfloor independently verifies the information provided by Borrowers, and while, in connection with the Loan Agreement, Borrowers represent that any information they provide to us is accurate, such information may nevertheless be inaccurate or incomplete. For example, there is no independent verification of the information about the financial condition and past business experience of the Borrower and business experience of its Principals, including much of the data contained in the Borrower Summary (Box H) of the Project Summary, the proposed costs of a given construction project or the capabilities, and the experience of any contractors or sub-contractors. Further, the information the Borrowers supply may be inaccurate or intentionally false. If information provided by Borrowers turns out to be false or misleading, you may lose part or all of the Purchase Amount you pay for a LRO. In general, information available on the Groundfloor Platform and in this Offering Circular with respect to the LROs being offered hereby is subject to Rule 10b-5 of the Exchange Act and to the liability provisions of the Securities Act. Potential investors should note that on occasion courts have taken the position that plaintiffs who have failed to exercise adequate caution in analyzing the risks associated with reliance upon unverified information may be precluded from asserting a claim for misrepresentation. Although we do not believe this would impact our overall liability under Rule 10b-5 of the Exchange Act and the liability provisions of the Securities Act for information provided to you in connection with this Offering, we advise you that your recourse may be limited in the event information that is self-reported and not independently verified turns out to be false or misleading.

Credit Risk and Valuation Assessment—the Grading Algorithm

Once Projects pass the preliminary assessment and thus meet the basic qualifications and financing requirements to be funded through the Groundfloor Platform, the Groundfloor underwriting team undertakes an assessment of each Project and the proposed terms of the underlying Loan to finalize the pricing terms (interest rate, maturity, repayment schedule, etc.) that we will accept.

Groundfloor uses its proprietary Grading Algorithm to assign one of seven letter grades, from A to G, to each Project. The letter grade generally reflects the overall risk of the Loan. In general:

A	B	C	D	E	F	G
5.5%	7.0%	8.5%	10%	13%	14.5%	17%

Each letter grade corresponds to the minimum fixed interest rate we will offer to a Borrower, subject to applicable law, with respect to a particular Project and the corresponding Loan. At this time, the standard annual fixed interest rates for each letter grade are as follows:

A	5.0%
B	6.0%
C	8.0%
D	9.0%
E	12.0%
F	14.0%
G	15.0%

The interest rates for a given letter grade represent the floor, or minimum amount, we will offer to a Borrower with respect to a particular Loan, subject to applicable law. If permitted by law, we may agree with a Borrower to increase the actual interest rate that will be paid for a particular Loan to make it more marketable and to help ensure that the Project receives funding. Under no circumstances will we decrease the interest rate charged for a Loan with a given letter grade unless otherwise required to do so by law. If a decrease is required by law, we may elect not to fund the Loan. If we do elect to proceed with the Loan at a lower interest rate, we will notify potential investors that the interest rate is lower than would typically be the case for a Loan of that quality.

The Grading Algorithm. The Grading Algorithm was developed by Groundfloor’s management team in consultation with outside advisors in light of the general type of residential real estate projects currently financed through the Groundfloor Platform. The algorithm applies a two-step proprietary mathematical formula. Groundfloor assigns a scale to each factor. The higher a Project rates with respect to a particular factor, the better the Loan scores. The higher the score, the lower the interest rate we offered on the Loan.

Representing a quantifiable assessment of the risk profile of a given Project, the Grading Algorithm helps compare and contrast the relative risks of certain quantifiable characteristics across properties. The Grading Algorithm determines a proposed base-line interest rate which reflects the given risk profile of a Project when it is underwritten. The lower the risk profile, the lower the interest rate we will agree to with respect to a particular Loan.

The Grading Algorithm factors in the following indicators that take into account (i) the valuation and strength of a particular Project and (ii) the experience and risk profile of the Borrower:

Valuation and Strength of Project

- the Loan to ARV Ratio of the Loan,
- the quality of the Valuation Report provided to us (supporting the determination of the Loan to ARV Ratio),
- the nature of the security interest (first lien or second lien) we obtain for the Loan, and
- the location of the Project.

Experience and Risk Profile of Borrower

- the experience of the Principal as well as the borrowing entity,
- the Principal’s commitment to real estate development,
- the amount of “skin-in-the-game” committed to the Project, and
- the credit quality of the Principal(s).

As stated above, the Loan to ARV Ratio for the purposes of the Offering is determined by dividing the total amount of debt on the Project (including the Loan from us and any additional debt on the Project) by the ARV (as determined by the Valuation Report). For instance, the Loan to ARV Ratio for a \$100,000 loan would be 10% for a property with a \$1 million ARV but it would be 50% for a \$500,000 ARV.

Determination of Raw Score. First, Groundfloor uses a proprietary mathematical formula to rank the Projects on a scale of 0-100, resulting in a raw score for each Loan we propose to finance. The raw score is determined utilizing a weighted scale that takes into account, to varying degrees, the factors that impact the valuation and strength of the Project (such as the quality of the Valuation Report and the location of the Project) as well as those that reflect the experience and risk profile of the Borrower and its Principals. Each of the factors used to calculate the raw score are described in more detail below in order of their ranking based on weight, from highest weighted (most important) to lowest weighted (least important).

Quality of Valuation Report – As discussed in more detail below, the Loan to ARV Ratio represents a significant factor in determining the final letter grade for each Loan. Groundfloor obtains one of four different kinds of Valuation Reports with respect to each Project which is used to calculate the Loan to ARV Ratio; however, not all Valuation Reports are of the same quality or reliability. The reliability of the data contained in those reports depends, in part, on the methods used to collect the data, the expertise of the third party that prepared the report, if any, as well as the appropriateness of the valuation approaches and underlying assumptions that have been used to reach the conclusions presented. For instance, a certified independent appraisal is a report that is prepared by a certified appraiser, who is subject to various professional standards. The appraiser’s report has set criteria, and the appraiser will look at specific property characteristics to determine a valuation, adjusted for local market conditions, etc. Compare this with a BPO, which is a report, with no fixed criteria, but which generally assesses a property’s value by comparing it against several similar properties in the same market. The BPO may be further adjusted by a documented walk-through of the property. This report is prepared by a licensed realtor in the same jurisdiction as the property, but is generally considered to be less accurate than a report from a certified appraiser. Still, a BPO is generally a more accurate assessment of a property’s value than comparable property information because the realtor preparing the report usually has local market expertise and, if not directly familiar with the property in question, is usually familiar with the comparable properties used in the BPO (for example, the realtor may have listed, bought, or sold one of the comparable properties).

The quality of the Valuation Report is assessed on a four-point scale as follows:

Type of Report – Score (with description)	Characteristics
<p>Certified Independent Appraisal – 4 (This is an independent appraisal that is prepared by a certified appraiser. It is exclusively commissioned to evaluate the Project associated with the specific Application. It is recently prepared (within one month) and is delivered directly to us by the appraiser.)</p>	<p>Highest quality. Most expensive and time consuming to prepare. Prepared by a licensed or certified appraiser.</p>
<p>Broker’s Price Opinion – 3 (A BPO is a report that is prepared by a licensed realtor. The realtor generally compares the property to several similar properties in the local market and may make further adjustments based on a site visit or walk-through. It is exclusively commissioned to evaluate the Project associated with the specific Application. It is recently prepared (within two months) and is typically delivered directly to us by the realtor.)</p>	<p>Good quality. Cheaper and faster to prepare. Prepared by a licensed realtor with local market knowledge.</p>
<p>Borrower Provided Appraisal – 2 (This is an appraisal that the Borrower commissioned on the property at some point in the past six months prior to the Application date and has on hand. While the appraiser is still subject to the customary professional standards, the appraisal is not commissioned for purposes of our Loan and it may not be as recent, thus the valuation will be less current, and there may be greater risk that changes in the market could negatively impact the valuation.)</p>	<p>Good quality. Previously prepared. Prepared by a licensed or certified appraiser, but not commissioned by us.</p>
<p>Borrower Provided Comps – 1 (This is a collection of comparable property listings gathered and prepared by the Borrower. The listing may be from a listing service website or they may be from a book of listing from various real estate agencies.)</p>	<p>Lowest quality. No cost, easily prepared. Data collected by Borrower. Highest Risk.</p>

Rather than requiring Borrowers to always provide a certified independent appraisal, which is the highest quality but most expensive and time consuming to prepare, the quality of the Valuation Report being provided for each Loan is accounted for through the Grading Algorithm by assigning scores (and thus more points towards the raw score) to the higher quality, more dependable Valuation Reports.

“Skin-in-the-Game” – Real estate developers who have a significant amount of their own money tied up in a project, especially relative to the amount they are borrowing, are less likely to default. Thus, the more skin-in-the-game a Borrower has in a Project relative to the amount they are borrowing, the lower the risk of the Project. A Borrower’s skin-in-the-game is assessed on a 10-point scale. The higher the ratio of the Borrower’s skin-in-the-game to the total amount of debt on the Project, the higher the score and thus more points earned towards the raw score.

Location – The location of a Project can impact valuation. For residential properties, lower-risk Projects will be in zip or postal codes representing strong real estate markets. Groundfloor has adopted a proprietary formula for assessing the residential real estate market in a particular zip code. It uses Zillow’s Home Value Index, or a comparable home valuation index, as the data set for our analysis. By obtaining the Home Value Index for a given zip or postal code, Groundfloor can compare that zip or postal code to the average home value for the state or province in which that code is located. Zip or postal code home values that are above the state or province’s average home value represent stronger real estate markets and therefore less risk. Property locations are assigned to an eight-point scale, based on whether or not a given zip or postal code’s average home value is above or below the state or province’s average home value (calculated for the most recent month for which data is available).

In awarding points for location, Groundfloor compares the home values in the Project’s zip or postal code to home values for the Project’s state or province by first calculating the state or province’s home value mean (the average price of a home in the state) and standard deviation (this is a measure of dispersion computed as the square root of the summation of the squared difference of each zip or postal code’s average home value from the state or province’s mean home value divided by the number of zip or postal codes in the state / province) based on all available zip or postal codes in the Project’s state. The z-score (the difference in standard deviation units between the average price of a home in the Project’s zip / area code and the average price in the Project’s state / province) is then calculated for the Project’s zip / area code. Points for the location of a particular Project are assigned based on the z-score for the Project’s zip / area code, with higher scores being awarded for z-scores that are above a state or province’s home value mean, and fewer points for z-scores that are below. Locations are divided into the following eight categories (highest to lowest score):

Location – Score
(with description)

Very High Value (z-score > +3) – 8

(The Home Value Index for this zip code is significantly higher than the average home value for the state / province.)

High Value (z-score ≥ +2, but < +3) – 7

(The Home Value Index for this zip code is much higher than the average home value for the state / province.)

Above Average Value (z-score ≥ +1, but < +2) – 6

(The Home Value Index for this zip code is higher than the average home value for the state / province. This is generally a more desirable location.)

Average Value (z-score ≥ +0, but < +1) – 5

(The Home Value Index for this zip code is similar to or slightly above the average home value for the state / province. This is the typical home for the state / province.)

Below Average Value (z-score ≥ -1, but < 0) – 4

(The Home Value Index for this zip code is slightly below the average home value for the state / province.)

Low Value (z-score ≥ -2, but < -1) – 3

(The Home Value Index for this zip code is below the average home value for the state / province.)

Very Low Value (z-score ≥ -3, but < -2) – 2

(The Home Value Index for this zip code is much lower than the average home value for the state / province.)

Lowest Value (z-score < -3) – 1

(The Home Value Index for this zip code is significantly lower than the average home value for the state / province.)

Zillow’s Home Value Index, or comparable indices, are based on a combination of factors, including sales data. However, as with any third-party data source, there may be inherent problems with Zillow’s or other vendor’s methodology or data set that could cause our related assessment to be inaccurate.

Borrower Credit Quality – Each Loan is rated based on the FICO credit score of the Principals. As entities, the Borrowers, which are the obligors under the Loan Documents, do not have FICO credit scores for Groundfloor to consider in evaluating the Project. Although the Principal(s) are not personally liable for the Loan, we believe his or her FICO credit score is a relevant factor in understanding the individual practices regarding debt management of the persons who will ultimately be responsible for managing the Project and servicing the debt. Lower-risk Borrowers have good credit ratings (typically a FICO credit score above 700) from established credit rating agencies. The higher the FICO credit score, the more points towards the raw score. The minimum credit rating accepted is a FICO credit score of 500. Groundfloor may receive multiple credit scores when there is more than one Principal involved with a Borrower. Groundfloor will always use the lowest FICO credit score to rate any given Loan. We do not disclose any information about the FICO credit scores collected in the course of our underwriting procedures due to privacy concerns.

Experience – Lower-risk Borrowers will have significant experience in real estate development (in terms of the number of projects developed) and will have successfully completed projects of a similar type and scope.

Experience is rated on a five-point scale, based on the Borrower's total number of completed projects. A Borrower is only credited for successfully completed projects. The Projects we give credit for must also be similar in type and scope to the Project being financed by the Company. For example, a Borrower who has only completed cosmetic renovations in the past will not be given experience credit if the project being underwritten is new construction.

Recognizing that some individuals move into real estate development after being involved long-term in other relevant industry activities in the real estate industry, credit is assigned for the following activities: (i) licensed real estate brokers will be credited with one successfully completed project for every three properties sold and (ii) general contractors and trades will be credited with one completed project for every two or more successfully completed projects of the type and scope under consideration.

This assessment is based on information that is self-reported by the Borrower, and therefore has not been independently verified. The higher the score, the more points added towards the Project's raw score. The scores for experience are assigned as set forth in the table below, with the higher scores yielding more points added towards the Project's raw score:

Number of Successfully Completed Projects	Score
> 4	5
3	4
2	3
1	2
0	1

Commitment – Borrowers who are in the real estate development business on a full-time basis are also considered to be lower-risk. As such, more points are assigned to those Projects where the Principals are working full-time, rather than pursuing real estate development on a part-time basis.

Rating Adjustments and Letter Grade. Once the raw score for a particular Loan is determined, the rating is adjusted based on the Loan to ARV Ratio and the quality of the security interest we will obtain in connection with the Loan. This adjustment yields the final letter grade, which reflects the assessment of the overall risk of the loan.

The Loan to ARV Ratio of the Project represents a significant factor in determining the final letter grade set through the Grading Algorithm. Lower-risk Projects will have a higher valuation (based on the Valuation Report provided by the Borrower) than the amount of total debt on the Project. For low risk first lien Projects, the Borrower's Loan to ARV Ratio will be more than 50%. Higher-risk first lien Projects have a Loan to ARV Ratio in excess of 70%. We will not finance properties where the total debt exceeds the reported value of the property if we are expected to hold a second lien on the property.

The Grading Algorithm uses a 10-point inverted scale to score Loan to ARV Ratio. A higher score means lower risk. Every Loan starts with 10 points and points are subtracted as the Loan to ARV Ratio increases. For example, a Loan with a 40% Loan to ARV Ratio will have 4 points subtracted and will be scored a 6. The following table sets forth the rating adjustments imposed on the raw score, based on the loan to ARV score of Loans that are secured by a first lien:

Rating Adjustments on First Lien Loans

Raw Score	Loan to ARV Score (corresponding Loan to ARV Ratio)									
	10 (10%)	9 (20%)	8 (30%)	7 (40%)	6 (50%)	5 (60%)	4 (70%)	3 (80%)	2 (90%)	1 (100%)
90-100	A	A	A	A	A	A	B	C	C	C
80-89	A	A	A	A	B	B	C	D	D	D
70-79	A	A	A	B	C	C	D	E	E	E
60-69	A	B	B	C	D	D	E	F	F	F
50-59	B	C	C	D	E	E	F	G	G	G
40-49	C	D	D	E	F	F	G	-	-	-
>40	D	E	E	F	G	G	-	-	-	-

The following table sets forth the rating adjustments imposed on the raw score, based on the loan to ARV score of loans that are secured by a second lien:

Rating Adjustments on Second Lien Loans

<i>Raw Score</i>	<i>Loan to ARV Score</i> (corresponding Loan to ARV Ratio)									
	<i>10</i> (10%)	<i>9</i> (20%)	<i>8</i> (30%)	<i>7</i> (40%)	<i>6</i> (50%)	<i>5</i> (60%)	<i>4</i> (70%)	<i>3</i> (80%)	<i>2</i> (90%)	<i>1</i> (100%)
90-100	A	A	A	B	B	C	D	E	-	-
80-89	A	B	B	C	C	D	E	F	-	-
70-79	B	C	C	D	D	E	F	G	-	-
60-69	C	D	D	E	E	F	G	-	-	-
50-59	D	E	E	F	F	G	-	-	-	-
40-49	E	F	F	G	G	-	-	-	-	-
>40	F	G	G	-	-	-	-	-	-	-

The smaller the Loan to ARV Ratio, the higher the score. Higher grades are awarded for higher scores. The rating adjustment can have a negative or positive impact on the raw score. For instance, when the Loan to ARV Ratio is significantly high, this means that a larger portion of the value of the property is being leveraged and there is less cushion between the amount borrowed and the projected value of the Project. The smaller cushion leads to greater risk of default. As a result, the loan to ARV score will be low and the raw score will be adjusted downward. With the same concept in mind, when the Loan to ARV Ratio is significantly low, a small portion of the property is being leveraged and there is a larger cushion between the amount borrowed and the projected value. In this circumstance, Groundfloor may increase the final letter grade, despite the Project initially receiving a lower raw score. This reflects lower risk in the case of default because the underlying property value is substantially larger than the credit exposure. In some instances, the Loan to ARV Ratio may be so significant that we will not fund the Loan under any circumstances (which is indicated by the dash (-) in the tables above).

There are maximum Loan to ARV Ratios for certain Project types beyond which Groundfloor will not accept. For all second lien loans, the Loan to ARV Ratio will not exceed 80%. For rehabilitation of an existing structure or construction of a new structure on developed, serviced land, the Loan to ARV Ratio will not exceed 85%. For Loans which are used for the combined acquisition and rehabilitation of an existing structure or the combined acquisition and construction of a new structure on developed, serviced land, Loan to ARV Ratio will not exceed 85%. For Loans to acquire or build raw, unserviced, undeveloped land, the Loan to ARV Ratio will not exceed 100% of the value of the underlying land. In addition to the above, we intend to comply with all real estate statutes and regulations with respect to loan-to-property value ratios, including those set forth in California Business and Professions Code section 10232.3, if applicable.

Presentation of Information in Project Summaries. Due to the proprietary nature of the Grading Algorithm, we do not disclose to investors the particular weights of the different factors for determining the raw score. However, to help investors assess the underlying data that leads to Groundfloor's underwriting decisions, we identify on the Project Summary how each Loan scored relative to these factors in addition to ordering the discussion above by relative weight for each factor. An investor can also compare the grading factors across multiple Loans using the Loan Comparison Tool. See "—How the Groundfloor Finance Platform Operates—Information Made Available through the Project Summaries."

Our Loan Arrangements

The terms of our Loans with the Borrowers are governed by the Loan Documents, including the Loan Agreement, a promissory note, certain mortgage instruments (including a deed of trust or similar security document) and other documents or instruments evidencing or securing the Loan. The exact documentation necessary to complete the Loan may vary on a case-by-case basis. However, our form Loan Agreement and corresponding promissory note are based on standard industry agreements.

Through the Loan Agreement, the borrowing entity makes representations and warranties to us as to the accuracy of any information provided in the course of applying for and receiving funding from GRE 1 through the Groundfloor Platform. We use commercially reasonable efforts to verify or authenticate such representations and warranties made by the borrowing entity. See "—Due Diligence and Authentication" above.

The Loan Agreement structures the terms of the Loan, including the interest rate, the maturity date, the frequency of interest payments, and the budget and/or Draw schedule. These terms are reflected in the corresponding promissory note. When a Loan is subject to a Draw schedule (which is typically the case, but always used for Loans in excess of \$50,000 unless an amount greater than \$50,000 is needed for the acquisition of a property), the funds of the Loan stay in the GRE 1 Borrower FBO Account, which is an account maintained at FBO Servicer titled in our name "for the benefit of" Groundfloor Borrowers.

Groundfloor Finance manages the draw and payment process with Borrowers on our behalf. The Borrower must submit requests for Draws by providing evidence that certain agreed-upon requirements have been met on a prescribed form to receive Loan funds. The request will contain a list of work that has been done, the amounts owed for such work, and to whom payment is owed for such work. In all cases, unless otherwise waived, the Borrower must submit invoices for the activities outlined in the Borrower's budget as the intended uses of the Loan Proceeds (the "Budgeted Activities") that are the subject of the request. We may, in our sole discretion, add additional evidentiary requirements to the Loan Agreements with first-time Borrowers and less experienced Borrowers. For instance, these Borrowers may need to provide copies of paid receipts, statements of accounts, pictures or video evidence of completed work, certifications by an engineer, architect, or other qualified inspector, construction lien waivers from the Borrower's contractor and from the suppliers (if any) for all Budgeted Activities covered by the request, lien subordination agreements, indemnifications, and endorsement to our title insurance loan policy (or a satisfactory commitment to issue such an endorsement) insuring that, as of the date of the request, our security interest is superior to any liens or potential liens for work performed or materials delivered. Groundfloor may also conduct site visits during the course of the project.

If satisfied with the Draw request and the evidence submitted, Groundfloor will remit payment either to the Borrower or directly to the trades or vendors who are owed payment. Our preference is to pay trades and vendors directly where Draws are used, but our ability to do so is determined by the willingness of the trades or vendors to be directly paid by us. If the trade or vendor expects to be paid in cash, we will instead remit payment to the Borrower, and the Borrower will settle the invoice.

The Loan Agreement contains standard terms and conditions regarding default, bankruptcy, and other non-payment contingencies. A deed of trust, or similar instrument, is entered into by the borrowing entity in conjunction with the execution of the Loan Agreement and is further used to secure our lien position.

Groundfloor holds all Loan Proceeds not advanced to the Borrower on the loan origination date in the GRE 1 Borrower FBO Account, which is a non-interest bearing demand deposit pooled account. All funds to be applied to the remaining Draws for a particular Loan are held in this GRE 1 Borrower FBO Account until so advanced to the Borrower. Borrowers have no direct relationship with FBO Servicer in connection with the GRE 1 Borrower FBO Account. GRE 1 is the owner of the GRE 1 Borrower FBO Account; however, we disclaim any economic interest in the assets in the GRE 1 Borrower FBO Account (other than as may be enforced through its security interest in the underlying Project) and also provides that each Borrower disclaims any right, title or interest in the assets of any other Borrower in the GRE 1 Borrower FBO Account until disbursed. We use a separate collection account (owned and titled in the name of the Company) maintained at FBO Servicer to hold the payments collected from Borrowers. Following receipt of Loan Payments, we promptly use intra-bank transfers to move sufficient funds to cover the corresponding LRO Payments to the appropriate Groundfloor Investor FBO Accounts of the investors in the series of LROs corresponding to the Loan.

We will charge Borrowers origination (which typically range between 2% and 6% of the Loan Principal) and servicing (which typically range between 0.5% and 5% of the Loan Principal) fees, which typically will be included in the total amount of the Loan. In addition, in some circumstances we may charge additional processing fees to the Borrower or deduct a collection fee from any delinquent amounts that we are able to collect before distributing the remainder to holders of LROs. Borrowers are also responsible for paying closing costs (such as brokerage fees or legal expenses) as well as the costs of obtaining the title search and title insurance. The borrowing entity may elect to include these costs in the total amount of the Loan financed through the Groundfloor Platform. Typically, the combined costs of closing, title search, and title insurance range from \$500 to \$3,500. See "—Fees and Related Expenses."

Loan Payments are secured obligations of the Borrower. Loan Payments are generally secured by a first lien security interest in the assets owned by the borrowing entity related to the specific Project, including the real property itself, any structures or buildings on the property, any materials purchased with Loan Proceeds for Project use and any improvements made thereon. We may agree, in some circumstances, to hold the junior security interest with respect to a particular Loan. For example, we may agree to hold a junior security interest on a new construction loan where a regulated banking institution is the senior secured lender, and where the total amount of debt on the property does not exceed the expected market value. See the Project Summaries beginning on page PS-1 for our lien position for each series of LROs offered under this Offering Circular. For Projects where we take a junior security interest, if any, the terms of that subordinated security interest will be clearly disclosed in this Offering Circular and the corresponding Project Summary. Since the Principals are not obligors under the Loan Documents, we are limited in seeking recourse for non-payment to the Borrower itself. See "—Project Funding and Payment of Expected Yield—Servicing and Collection of Loans Generally" for more information about our collection procedures and policies.

Project Funding and Payment of Expected Yield

Purchase of LROs

LROs are offered and sold to investors who reside in one of the states or jurisdictions where our offering of the LROs is qualified and who meet applicable suitability requirements. Investors must also have sufficient funds available in their Groundfloor account to make the desired investment.

Posting of the Listing to the Groundfloor Platform. We will commence the offering of a particular series of LROs promptly after qualification of Offering Circular or a PQA covering such series is qualified by posting on the Groundfloor Platform a separate Project Summary corresponding to each particular Loan and Project. Once the Offering Period for a particular series of LROs commences, it will remain open for 30 days (unless it is fully subscribed with irrevocable funding commitments before the end of such period); however, we may extend that period in our sole discretion (with notice to potential investors) up to a maximum of 45 days. During the Offering Period, information relating to a specific offering and instructions for purchasing the series of LROs corresponding to a particular Project and Loan will be available on the corresponding Project Summary on the Groundfloor Platform.

We issue LROs in denominations of \$10 and integral multiples of \$10. The aggregate Purchase Amount of all LROs of a particular series will equal the Loan Principal of the corresponding Loan. We offer each series of LROs at 100% of the Loan Principal.

Non-Binding Commitments. You may purchase a LRO by opening the Project Summary on the Groundfloor Platform and indicating the Purchase Amount you want to invest (in denominations of \$10 and integral multiples of \$10), subject to the maximum investment amount, if any, imposed on the offering. You will then be prompted to confirm the “commitment” to purchase such amount of that series of LROs. After such confirmation, the commitment serves as a pre-authorization to debit your Groundfloor account. If you do not have sufficient funds in your Groundfloor account, you will be prompted to link your bank account so the appropriate amount may be transferred to your funding account via ACH.

Funds that have been used to commit to this non-binding commitment remain in your Groundfloor account but are set aside for the indicated purchase. No money is transferred from your Groundfloor account (or the Groundfloor Investor FBO Account) at this stage. The commitments do not represent binding obligations and will not become irrevocable until the expiration of the Withdrawal Period. You may withdraw your non-binding commitments at any time before the expiration of the Withdrawal Period by accessing your Investor Dashboard and selecting “request withdrawal.” Funds you withdraw from your Groundfloor Account before the expiration of the Withdrawal Period will be released and made available in the your Groundfloor account typically within 48 hours, after which time you may elect to transfer such funds to your bank account or make a commitment towards a different Project.

The Withdrawal Period. Once (i) we receive sufficient non-binding commitments to fully subscribe the Loan and (ii) all of the financing conditions have been satisfied (other than the completion of the title search and obtaining valid title insurance), we will notify (by email and through a notice on the Project Summary) those investors who have completed non-binding commitments for the Project that they have 48 hours to withdraw their funds (the “Withdrawal Period”). Commitments may be withdrawn prior to the expiration of the Withdrawal Period by accessing the Investor Dashboard and selecting “request withdrawal.” Commitments not withdrawn before the expiration of the 48-hour Withdrawal Period will automatically convert into binding and irrevocable commitments to purchase the LROs relating to the corresponding Project and cannot be withdrawn or committed to purchase additional LROs. Commitments to purchase LROs made after expiration of the Withdrawal Period, if any, are irrevocable when authorized and may not be withdrawn.

All funds that are irrevocably committed to purchase LROs are immediately segregated from those held in the Groundfloor Accounts by transferring them into the GRE 1 Investor FBO Account. GRE 1 will hold these funds in the GRE 1 Investor FBO Account until issuance of the LROs.

Issuance of the LROs. GRE 1 will issue the corresponding series of LROs as soon as possible (typically within five days) after the expiration of the Withdrawal Period (and once the offering is fully subscribed with irrevocable funding commitments). The LROs are issued electronically, in “book entry” form, by means of registration of each investor’s ownership in our records. Unless previously advanced, the closing and funding of the Loan will occur on the original issue date of the LROs. You will be notified within two business days (by email and through a notice on the Project Summary) when the LROs have been issued. The email notice will include confirmation of the original issue date, final payment date, and extended payment date for such series of LROs (as well as information on how to access the final version of the LRO Agreement through the Groundfloor Platform), an active hyperlink to the uniform resource locator (URL) where the final Offering Statement (which includes the final Offering Circular) may be obtained via EDGAR, and the contact information where a request for a copy of the final Offering Circular can be sent. (You may also access this information on your Investor Dashboard.)

Abandonment and Withdrawn Offerings. We may abandon or withdraw an offering of a particular series of LROs at any time prior to issuance. For example, we will abandon the offering of a series of LROs in the event the Borrower withdraws its funding request. We have no way of controlling when in the Offering Period this type of abandonment may occur; however, in all circumstances, we release committed funds within 48 hours of receiving such notice. So, if on day 15 of the Offering Period we receive notice from the Borrower that it is withdrawing the Project, funds committed to the corresponding series of LROs would be returned to investors no later than day 17 of the Offering Period. We may also abandon the offering in the event it is not fully subscribed by the end of the Offering Period. Prior to the enactment of the loan advance program, the majority of the series of LROs that were abandoned by Groundfloor Finance following qualification were due to the Borrower withdrawal—when our underwriting and offering procedures took too long and made it impossible for borrowers to meet internal deadlines (such as a specific date to acquire the underlying property). With the enactment of the loan advance program, we do not expect the rate of abandoned series to be as high in the future for this Offering as compared to prior offerings by Groundfloor Finance. In addition, if we determine prior to issuance of the corresponding series of LROs that the Borrower’s financing request contains materially inaccurate information (including unintended inaccuracies, inaccuracies resulting from errors by us, or inaccuracies resulting from changes in a Borrower’s financial position, experience, or credit profile or was posted illegally or in violation of any order, writ, injunction or decree of any court or governmental instrumentality, for purposes of fraud or deception, etc.), we would abandon the offering of the corresponding series of LROs.

We will notify you by email if we abandon an offering of one or more series of LROs to which you have made a commitment. In the event we do so, we will promptly (but under no circumstances more than 48 hours after receipt of a withdrawal notice from the Borrower or following our determination to abandon the offering) release all funds (without interest) committed to purchase that series; after which, you may elect to transfer such funds to your bank account or make a commitment to purchase a different series of LROs.

Offerings are typically withdrawn due to the need to correct or modify specific disclosures about the terms of the related series of LROs and the series of LROs that correspond to Loans that are withdrawn are typically re-qualified at a later date. We would withdraw (rather than abandon) an offering of LROs in the event we are required to amend or update material information contained in this Offering Circular or any PQA related to the specific terms of the LROs (or the corresponding Loan). More often than not, we withdraw Loans from an offering before commencing the Offering Period for the corresponding LROs. However, if commitments have been made towards a series that is withdrawn, we will promptly (but under no circumstances more than 48 hours following our determination to withdraw the offering) release all funds (without interest) committed to purchase that series; after which, you may elect to transfer such funds to your bank account or make a commitment to purchase a different series of LROs.

Terminated or Suspended Offerings. We may be required to terminate or suspend ongoing offerings of LROs in the event we are required to amend or update certain material information about GRE 1 and/or Groundfloor Finance contained in this Offering Circular. Although we are permitted to provide updates about our company by filing supplements with the SEC, any facts or events arising after qualification which, individually or in the aggregate, represent a fundamental change in the information set forth in these disclosures may only be updated or revised through filing and qualifying a new Offering Statement or a PQA with the SEC. Thus, in the event we are unable to use a supplement to update our disclosures adequately for these fundamental changes (such as to update outdated factual information), we may be forced to terminate or suspend our offerings. Similarly, we may be required suspend offerings to address comments that may be raised by the SEC during the offering process.

Making Commitments through Groundfloor Accounts. You fund commitments through your Groundfloor funding account or by direct ACH transfer from your bank account to your Groundfloor account.

You fund your Groundfloor account by linking your bank account and transferring money via ACH transfer, as provided by our Funds Transfer Agent. For example, when you register for an account and then elect to purchase a LRO, you will first be prompted to link your bank account and transfer funds to your Groundfloor account in order to complete the purchase. Groundfloor may allow, to the extent permitted by applicable law, you to fund your Groundfloor account through other means, such as PayPal, BitPay, Google Wallet, or other online payment systems. If a funds transfer is required before completion of a commitment, the commitment will be completed as one action if there are sufficient funds in the bank account. Neither we nor Groundfloor are responsible for any fees you may be charged by your banking institution as a result of any transaction involving your Groundfloor accounts, including in which there are insufficient funds available to complete the transaction.

Once you confirm the non-binding purchase order for a particular series of LROs, the funds allocated for such investment are set aside in your funding account. Commitments made prior to the expiration of the Withdrawal Period may be withdrawn at any time. Commitments made after expiration of the Withdrawal Period, if any, are irrevocable when authorized and may not be withdrawn. If you have insufficient funds in your funding account when making a commitment, you will be prompted to fund your Groundfloor account with the difference via ACH transfer.

Commitments not otherwise withdrawn or made after the expiration of the Withdrawal Period are irrevocable and the funds immediately transferred to the GRE 1 Investor FBO Account. Irrevocably committed funds may not be withdrawn from your funding account or committed to other Projects, unless we abandon or withdraw the offering of the series of LROs (or terminate or suspend our offering generally), each as described above.

Servicing and Collection of Loans Generally

Following the sale of LROs and the funding of the corresponding Loan, Groundfloor Finance will begin servicing the Loan on our behalf. The LRO Agreements gives us (and our agents) broad powers in administering, servicing, collecting and enforcing the Loan. See “—Remedies” below. The LRO Agreement generally permits us (and our agents) to take certain actions when administering, servicing, collecting and enforcing the Loans (such as to give or withhold extensions, waivers, etc. or to change the payment date or reduce the principal amount or the rate of interests owed), without your consent, provided that we have reasonably and prudently determined that such action will not be materially adverse to the holders of the LROs. In addition, in undertaking this broad authority to administer, service, collect and enforce the Loans, we and Groundfloor Finance (as our agent) are required to use commercially reasonable efforts prior to the extended payment date to pursue, either directly or through our representatives, (i) the collection of any amounts owing to us under the Loan Documents (to the extent constituting Loan Payments) and (ii) the exercise of our remedies upon a breach or default under the Loan Documents or in order to avoid the occurrence thereof, in each case, to the extent warranted in our business judgment and consistent with reasonable commercial standards of fair dealing and in accordance with industry standards customary for loans of the same general type and character as the Loans in order to maximize the amount of LRO Payments to be made under the terms of the LRO. We refer to these requirements, generally, as our “servicing standards set forth in the LRO Agreement.” See “General Terms of the LROs—Administration, Service, Collection, and Enforcement of Loan Documents” below.

Our obligation to make any LRO Payments will automatically terminate (and the LRO shall be of no further force or effect) once all of the Purchase Amount of, and Accrued Return earned on, the LRO through the date of payment is paid in full. Due to our ability to prepay the Loan (and in light of these broad powers to administer, service, collect and enforce a Loan, particularly in the context of a Borrower default), our payment obligation may be satisfied by making LRO Payments to investors of an amount that may be more or less than the expected yield, on a date different than originally specified.

Notwithstanding our broad powers, in circumstances other than Borrower default or prepayment, the modification of a term of a Loan (e.g., a reduction in the interest rate charged on the Loan) could be deemed to be a material modification of the terms of the corresponding series of LROs. In such instance, it is possible that the modified series of LROs would constitute a new security under the Securities Act and under applicable State securities laws. Before implementing any modification to the terms of a Loan (other than in circumstances involving Borrower default or prepayment) that would cause the corresponding series of Securities (as modified) to constitute a new security, we will be required to either register the offer of the modified LRO under Section 5 of the Securities Act and under applicable State securities laws or find an exemption from such registration requirements.

Administration and Servicing Logistics. Groundfloor Finance has set up an automated accounting system to track payments received from the Borrower. Groundfloor Finance (as our agent) is responsible for billing, payment collection, debt status tracking, and all other tasks required to efficiently service the Loan. Loan Payments by the Borrower are handled by debiting its bank account by ACH transfer or by wiring funds where the Loan Agreement allows for balloon payments or non-amortizing payments. If the Borrower elects to pay by check, we reserve the right to charge the Borrower for any check processing fees we incur. We retain all of any check processing and other processing fees we receive to cover costs. Each time a payment request is denied due to insufficient funds in the Borrower’s account or for any other reason, we may assess (and retain) an unsuccessful payment fee to the Borrower to cover any costs that result therefrom. See “—Fees and Related Expenses.”

Groundfloor services payments with respect to the outstanding LROs on our behalf. LRO Payments will be made within five business days of receipt by us of Loan Payments with respect to the corresponding Loan. The LRO Agreement gives us sole discretion in applying amounts we receive from, or for the account of, the Borrower, with respect to the corresponding Loan. We may make LRO Payments out of any funds at our disposal directly to the investor’s funding account. Investors may not request that these payments be made directly to their bank account. We provide reports and other investor communications via electronic communication through email or by posting updates on the Groundfloor Platform. (See “—Investment Documents” below.)

Remedies. In the event a Borrower fails to make payment within 15 days of the due date, such failure constitutes a default, and we have the option to pursue various remedies. We can charge a late charge equal to the lesser of (i) 4% of the amount of the unpaid payment or (ii) the maximum amount permitted to be charged under applicable law. We could also apply a default rate equal to the lesser of (x) 20% per annum or (y) the maximum rate permitted to be charged under applicable law, and/or pursue various remedies made available to us under the Loan Documents, at law or in equity. Late charges and the default rate are applied to the outstanding amount then owed and calculated from the original date the payment was due. The LRO Agreement characterizes late charges and default interest as Collection Proceeds, thus our obligation to make LRO Payments includes amounts equal to any late charges and/or default interest, as applicable, we may receive with respect to the corresponding Loan prior to the extended payment date (in each case, less any Collection Costs we (or our agents) incur). See “—Fees and Related Expenses” below for more information.

When a Borrower fails to make payment within 15 days of the due date, such failure constitutes a default and our current policy is: first, to impose the late charge; then, if the amounts remain overdue after an additional 30 days (or 45 days after the scheduled payment date or maturity date, as the case may be), we will begin to charge default interest and Groundfloor Finance (acting on our behalf) will promptly begin taking steps in accordance with the servicing standards set forth in the LRO Agreement to remedy the default (as discussed below). We may deviate from this policy, subject to the servicing standards set forth in the LRO Agreement, depending on the circumstances of the missed payment. When making a decision to exercise remedies (including whether to put the Borrower in default), we (and Groundfloor Finance acting on our behalf) will act in accordance with the servicing standards set forth in the LRO Agreement. Many factors are taken into consideration, such as payment history, general credit worthiness, the prospects of repayment, the current status of the project, the amount of addition time needed and cost involved (in each case if any) to complete the project, whether there is other collateral that may be pledged to secure obligations, the value of the collateral, the applicable real estate market, whether the value of the collateral is likely to decrease or increase, the time and costs involved to foreclose and dispose of the collateral, and the costs to maintain the collateral.

In addition we have the option to increase the interest rate applied to the Loan where circumstances allow, subject to applicable law and the servicing standards set forth in the LRO Agreement, as a penalty in the event of an extension or modification. Acting on our behalf, Groundfloor uses its discretion in accordance with the servicing standards set forth in the LRO Agreement when determining whether to apply penalty interest to a modification (separate and apart from late charges and/or default interest that may already be imposed), and it makes a determination about whether to apply a penalty (and the amount, if any) on a case-by-case basis. In many cases the penalty rate is set lower than the applicable late charge to encourage Borrowers who are in default to pursue an extension or modification before missing a payment or continued default. As a result, based on current policy (which Groundfloor may deviate from in its sole discretion, subject to the servicing standards set forth in the LRO Agreement), when extending the Loan, the penalty rate is typically set based on the length of the extension. If the extension is for one month, typically no penalty interest is charged. If the extension is for two months, typically penalty interest of 1%, is charged and, if it is extended for three months or more, typically penalty interest of 2% is charged. (In all instances, the penalty charged is subject to applicable law.) If the Borrower has previously requested an extension, typically the penalty interest is 2%. Groundfloor Finance will not grant an extension beyond six months in any instance. All other material modifications (such as changing the payment schedule, etc.) are typically subject to penalty interest of 1%. The LRO Agreement characterizes penalty interest as Collection Proceeds, thus our obligation to make LRO Payments includes any such amounts we may receive with respect to the corresponding Loan prior to the extended payment date (less any Collection Costs). See “—Fees and Related Expenses” below for more information.

Acting on our behalf, Groundfloor may also in its sole discretion and subject to the servicing standards set forth in the LRO Agreement decide to do a “workout” with the Borrower (either before or after a missed payment). This may include modifying the loan terms to change the payment date, reduce the principal amount or rate of interest, change the time or manner of making Loan Payments, or amend any other material Loan term. Any such modification would be done in strict compliance with the servicing standards set forth in the LRO Agreement. The modifications contemplated during a “workout” would be made, common to loan servicing practices, where a reasonable forbearance or extension of time for payment to be received would prevent a Borrower from defaulting entirely on the Loan or filing bankruptcy. The LRO Agreement characterizes payments of reduced principal or interest on the Loan as Collection Proceeds, thus our obligation to make LRO Payments includes any such amounts we may receive with respect to the corresponding Loan prior to the extended payment date (in each case, less any Collection Costs). See “—Fees and Related Expenses” below for more information. We may charge the Borrower (and retain) a loan modification fee in connection with any modification of the Loan. Whether we charge a modification fee (and the amount of such fee) will vary based on the modification, the complexity and time involved to negotiate and document the modification, the increased burden or administration required to service the modified Loan, and other facts and circumstance that may exist at the time of the modification.

Finally, acting on our behalf, Groundfloor may, in its sole discretion in accordance with the servicing standards set forth in the LRO Agreement, seek to remedy a default by taking steps to exercise our security interest and take possession of the assets of the Project. This typically would involve, among other things, foreclosing on any real property pledged as the security interest. In order to recover amounts due under the Loan, when we are able to take possession of the underlying asset, we would sell the Project assets and repay the LRO out of the proceeds of the sale. Alternatively, rather than taking possession of the assets, we may elect to assign or sell our rights to the Loan to a third party (potentially at a discount or “below par”) for payment of all or some of the outstanding amounts owed by the Borrower. The LRO Agreement characterizes the amounts we may receive as a result of these activities as Collection Proceeds, thus our obligation to make LRO Payments includes amounts equal to any such payments we may receive with respect to the corresponding Loan prior to the extended payment date (in each case, less any Collection Costs). See “—Fees and Related Expenses” below for more information. See “General Terms of the LROs—Collection Proceeds, Costs, and Expenses” below for more information.

When making a decision to exercise remedies (including whether to put the Borrower in fundamental default and pursue foreclosure or similar collection remedies or to waive penalties that have accrued), Groundfloor will act in accordance with the servicing standards set forth in the LRO Agreement and, in the course of its assessment of how to proceed, it will consider various factors such as payment history, general credit worthiness, the prospects of repayment (particularly without loss of principal or of expected return), the current status of the Project, the further time needed and cost (in each case if any) to complete the Project, whether there is other collateral that may be pledged to secure obligations, the value of the collateral, the applicable real estate market, whether the value of the collateral is likely to decrease or increase, the time and costs involved to foreclose and dispose of the collateral, and the costs to maintain the collateral.

The normal collection process changes in the event of the bankruptcy of the Borrower and, potentially, of the Principal (which also constitutes a Borrower default). When we receive notice of the bankruptcy, as required by law, Groundfloor (acting as our agent) will cease any and all automatic payments on the Loan and defer any other collection activity. We will put a freeze on any funds held in the GRE 1 Borrower FBO Account on behalf of such Borrower. If we are in a senior secured position, Groundfloor (acting as our agent) will execute our rights to the fullest extent to recover funds in any subsequent bankruptcy proceeding, which may include the filing of a proof of claim and attempts to obtain relief from stay to foreclose on the assets that secure the Loan. We may pursue additional relief beyond the proof of claim, depending upon certain factors including our view of the costs and benefits to us of any proposed action. Notwithstanding our security interest, in the event of the Borrower's bankruptcy, if the Borrower has other creditors senior to the Company, the bankruptcy court may refuse to grant relief from stay to enable us to foreclose on the Borrower's assets, including funds that are set aside in the Borrower's sub-account in the GRE 1 Borrower FBO Account. Moreover, if an existing mortgage lender to the Borrower has foreclosed on the Borrower's property, our agents may be unable to gain access to the premises to take possession of any underlying materials which may be part of our security interest. The LRO Agreement characterizes all amounts received prior to or in connection with a Borrower bankruptcy as Collection Proceeds, thus our obligation to make LRO Payments includes any such amounts we may receive with respect to the corresponding Loan prior to the extended payment date (less any Collection Costs). See “—Fees and Related Expenses” below for more information.

Status of Loans. Our obligation to make LRO Payments is limited, in all circumstances, to an amount equal to the holder's pro rata share of the amount of Loan Payments, if any, actually received on the corresponding Loan. Investors who have purchased LROs are able to monitor the payment status of the corresponding Loan as “Current,” “Late” (followed by the number of days late), “Repaid,” “Defaulted” or “Written-Off” through the Investor Dashboard, but cannot participate in or otherwise intervene in the collection or enforcement process. We generally characterize the collection status of our Loans as:

- repaid (i.e., all Loan Payment obligations have been made),
- “current” (i.e., no events of default have occurred, all payment obligations have been met or none are yet triggered),
- subject to “workout” (i.e., there has been one or more payment defaults on the Loan and we have negotiated a modification of the original terms that does not amount to a fundamental default), which may delay payment to the holders of the corresponding LROs (as is the case with an extension) or result in such holders receiving less than the original Expected Return (as would be the case if we agreed to reduce the interest owed on the Loan),
- subject to a “fundamental default” (i.e., where a loan has defaulted and it is more likely than not that we will not be able to collect 100% of the principal amount of the Loan by the Extended Payment Date of the corresponding LRO), or
- “written off” (i.e., we have determined that all or a portion of the Loan has been uncollectable).

For instance, any default tied to a bankruptcy (or pending bankruptcy or placing into receivership) of the Borrower is deemed to be a fundamental default. In addition, a fundamental default would occur when the Borrower has entered into a payment default (i.e., failed to make a payment when due) and, due to circumstances surrounding the Project and relative to the Borrower, Groundfloor (acting on our behalf) must either (1) modify the Loan in a manner that reduces the principal amount below 100%, (2) put the property into foreclosure, (3) sell the note, or (4) pursue other remedies, in each case that would reasonably be expected to result in less than full payment of the original principal amount of the loan by the Extended Payment Date. We do not consider a payment default, either by itself or in combination with one or more extensions or other work-out arrangements that contemplates full repayment of the original principal amount of the Loan, to amount to a fundamental default.

Fees and Related Expenses

The LRO Agreement provides that, subject to the application of Loan Payments received as Collection Proceeds and our ability to prepay the LRO, we will pay to each holder of a LRO the Purchase Amount of, and the Accrued Return earned on, the LRO through the date of payment as LRO Payments. Our obligation to make LRO Payments is limited, in all circumstances, to an amount equal to the holder's pro rata share of the amount of Loan Payments, if any, actually received on the corresponding Loan. For these purposes, LRO Payments include all payments or prepayments of principal and interest under the Loan as well as amounts received, whether prior to or in connection with a Borrower bankruptcy or in connection with any exercise of our powers to administer, service, collect and enforce the terms of the Loan or of the Loan Documents, including, without limitation, amounts received (i) as late charges and default or penalty interest, or as payment of any principal or accrued interest on the Loan that may be reduced, or (ii) in connection with the enforcement of any security interest in the assets pledged to secure the Loan, or (iii) in connection with a sale of our rights, title and interest under the Loan Documents, in each case net of any Company Fees and Expenses (as defined below), Collection Costs (as defined below), loan modification fees, and fees deducted by a backup or successor servicer (the categorization of all such items to be determined by us or our agent in a manner consistent with the Loan Documents (collectively, the "Collection Proceeds").

For all Loans, Borrowers are charged an origination fee and a servicing fee. The origination fee (which typically ranges, between 2% and 6% of the principal loan amount requested by the Borrower) are charged by the Groundfloor entity that originates the Loan (either as an advance or upon issuance of the LROs). In most instances, the origination fees are included in the total amount of the Loan financed through the Groundfloor Platform. Less frequently, a Borrower will directly pay the origination fee at closing. Borrowers are also responsible for paying closing costs (such as brokerage fees or legal expenses) as well as the costs of obtaining the title search and title insurance. The Borrower may elect to include these costs in the total amount of the Loan financed through the Groundfloor Platform or may directly pay these expenses at closing. Typically, the combined costs of closing, title search, and title insurance range from \$500 to \$3,500. All of these fees and reimbursements are retained by us or by the Groundfloor entity that originates the Loan. None are included in the amount of LRO Payments distributed to investors.

We also charge fees in connection with servicing and administering the Loan Documents. Servicing fees (which typically range between 0.5% and 5%) are collected with payment of every draw or upon repayment of the Loan. Administrative fees also include check processing and servicing or administrative fees incurred in connection with facilitating Draw payments, upon repayment of the Loan and/or other disbursements of loan proceeds and fees imposed on us or our agent in respect of a Loan when our payment request is denied for any reason, including, but not limited to, non-sufficient funds in the Borrower's bank account or the closing of such bank account. (We refer to these fees, as well as the origination fees retained by us or our affiliates as the "Company Fees and Expenses"). Unless otherwise paid by the Borrower, we typically deduct these Company Fees and Expenses from undrawn Loan Proceeds; however, if insufficient Loan Proceeds remain available to cover those amounts, we will invoice the Borrower directly for those fees and expenses. LRO Payments do not include amounts equal to any Company Fees and Expenses.

We do not currently charge any prepayment fees or penalties. We currently do not incur fees or expenses in connection with the engagement of a backup or successor servicer. In the event we do incur such fees and expenses in the future, we would retain any reimbursements received from Borrowers to cover such fees and expenses or may reduce LRO Payments by such amounts.

We may charge the Borrower (and retain) a fee in connection with an extension or modification of the Loan. Whether we charge a modification fee (and the amount of such fee) will vary based on the modification, the complexity and time involved to negotiate and document the modification, the increased burden or administration required to service the modified Loan, and other facts and circumstance that may exist at the time of the modification. See "—Project Funding and Payment of Expected Yield—Servicing and Collection of Loans Generally." We typically deduct modification fees from undrawn Loan Proceeds; however, if insufficient Loan Proceeds remain available to cover the loan modification fee, we invoice the Borrower directly for these expenses. LRO Payments do not include loan modification fees.

In the event a Borrower fails to make payment on a due date, we have the option to pursue various remedies, including imposing a late charge or charging interest at a default rate. In addition, we may increase the interest rate applied to the Loan, subject to applicable law, as a penalty in the event of an extension or modification. See "—Project Funding and Payment of Expected Yield —Servicing and Collection of Loans Generally." LRO Payments include amounts equal to any late charges, default interest and/or penalty interest received with respect to the corresponding Loan prior to the extended payment date.

Any and all Collection Proceeds received will be applied (i) first, to all costs and expenses of any nature whatsoever incurred by us or our agents for the maintenance, preservation, defense, protection, sale, other disposition, collection and enforcement of the Loan Documents, including without limitation court costs and reasonable attorneys' fees, expenses (including those associated with the defense or any related action, claim or demand) and disbursements (the "Collection Costs"), (ii) second, to any earned and unpaid Accrued Return owed on the LRO, and (iii) third, to the Purchase Amount of the LRO then outstanding. We will pay each holder of a series of LROs an amount equal to such holder's pro rata share of the Collection Proceeds (net of Collection Costs) secured with respect to the corresponding Loan prior to the extended payment date. Payment of amounts corresponding to certain Collection Proceeds (such as late charges, default interest or penalty interest charged on the Loan) could automatically increase the total amount of the LRO Payments owed to you under the terms of the LRO Agreement. Prepayment of the LRO and payment of amounts corresponding to other types of Collection Proceeds (such as amounts resulting from any reduction in outstanding principal and accrued interest on the Loan, we (or our agent (may agree to, or of amounts received in connection with the enforcement of any security interest in the assets pledged to secure the Loan, or in connection with a sale of our rights, title and interest under the Loan Documents) or, if we (or our agent) elects to write-off the Loan, could automatically decrease the total amount of the LRO Payments owed to you under the terms of the LRO. See "General Terms of the LROs—Collection Proceeds, Costs, and Expenses" below.

The chart below summarizes the current treatment of the various fees charged and expenses incurred in connection with underwriting and loan administration services.

Type of Fee	Amount of Fee/Expense	Application of Fees
Origination Fees	Typically ranging from 2% to 6%	Charged to each Borrower and retained by the entity originating the Loan. Fee is typically included in total amount of the Loan funded on the Groundfloor Platform or paid directly by the Borrower at closing.
Servicing Fees	Variable (typically ranging from 0.5% to 5%)	Charged to each Borrower and retained by GRE 1 (unless the originating entity is in the position to service the Loan at the time the fee is charged). Fee is levied with each draw or upon repayment of full Loan Principal.
Closing Expenses	\$500 to \$3,500	Charged to the Borrower and retained by entity originating the Loan. Fee is typically included in total amount of the Loan funded on the Groundfloor Platform or paid directly by the Borrower at closing.
Check Processing Fee	Up to \$15	Fees would be paid by the Borrower and retained by GRE 1.
Non-Sufficient Funds	\$15 to \$35	Fees would be paid by the Borrower and retained by GRE 1.
Loan Modification Fees	Variable	Fees paid by the Borrower and retained by GRE 1.
Collection Proceeds and Collection Costs		
Penalty Interest Rate	Variable. Typically, up to an additional 2%, subject to applicable law	Additional interest paid by the Borrower. Corresponding amounts, less Collection Costs, are included in LRO Payments.
Late Charge	The lesser of 4% or the maximum amount permitted to be charged under applicable law	Late charge is paid by the Borrower. Corresponding amounts, less Collection Costs, are included in LRO Payments.
Default Rate	The lesser of 20% or the maximum rate permitted to be charged, less Collection Costs	Additional interest paid by the Borrower. Corresponding amounts, less Collection Costs, are included in LRO Payments.
Other Collection Proceeds	Variable	Corresponding amounts, less Collection Costs, are included in LRO Payments.
Collection Costs	Variable	Expenses paid and retained by GRE 1 (or its agent) out of the Collection Proceeds.

Investors

Investors are not charged investors fees in connection with the Offering or any service fees with respect to LRO Payments to them. Groundfloor does not currently charge investors any fees for the use of the Groundfloor Platform.

The Fund Transfer Agent charges Groundfloor fees for the use of its services. These fees are not passed through to investors. We are not responsible for any fees investors may be charged by their banking institution as a result of any transaction in which there are insufficient funds available to complete the transaction. These fees are typically charged to the investor directly by the banking institution; however, we reserve the right to pass through to the investor any fees we are charged as a result.

Investment Documents

When registering on the Groundfloor Platform you must agree to the Terms of Service and Privacy Policy. At the time you make a commitment to purchase a series of LROs, you must agree to the Investor Agreement, including the Terms and Conditions, and the LRO Agreement relating to that particular series of LROs. The Investor Agreement, together with the Terms and Conditions, governs the general rights and obligations in connection with investing in LROs through the Groundfloor Platform. The LRO Agreement governs the offer and sale of a particular series of LROs as well as the legal structure of the security and the specific rights and obligations of purchasers of that series of LROs and GRE 1. The provisions of the Investor Agreement and the LRO Agreement should be read in conjunction with each other; however, the LRO Agreement supersedes the terms of the Investor Agreement in the event of any inconsistency between the two agreements. See "General Terms of the LROs" for a more detailed discussion of the terms of the LRO Agreement.

The Investor Agreement limits your right to collect or attempt to collect from any Borrower or from its Principals, directly or through any third party, any amount owing under any of your LROs or on any of the Loan Payments on the Loan that corresponds to your series of LROs.

You also consent in both the Terms of Service (with Groundfloor Finance) and the Investor Agreement (with GRE 1) to receive electronically all documents, communications, notices, contracts, prospectuses, Offering Circulars (including supplements and PQAs), and agreements, including any IRS Form 1099, arising from or relating in any way to your or our rights, obligations or services under the Investor Agreement, any LRO Agreement you may enter into and use of the Groundfloor Platform (each, a “Disclosure”). Any Disclosures will be provided to you electronically, either on the Groundfloor Platform or via electronic mail to the verified email address provided. Disclosures may be made available in HTML (regular web hypertext) or as a Portable Digital Format or “PDF” file. You consent to receive Disclosures and transact business electronically (including creation of legally binding and enforceable agreements utilizing electronic records and signatures), and our agreement to do so, applies to any transactions to which such Disclosures relate. The Investor Agreement sets out a procedure for withdrawing your consent.

In the Investor Agreement, you acknowledge that the LROs are intended to be debt instruments issued by the Company that have original issue discount (“OID”) for U.S. federal income tax purposes and you agree not to take any position inconsistent with that treatment of the LROs for tax, accounting, or other purposes, unless required by law. You also acknowledge that the LROs will be subject to the OID rules of the Internal Revenue Code, as described below under “Federal Tax Aspects—Taxation of the LROs in General” and “Federal Tax Aspects—Taxation of Payments on the LROs.”

Acknowledgements, Representations, and Warranties in the Investor Agreement

The Investor Agreement describes the limitations on payments on the LROs, and you acknowledge that, among other things:

- you are prepared to bear the risk of loss of your entire Purchase Amount;
- payment on the LROs, if any, depends entirely on the receipt of Loan Payments by us in respect to the corresponding Loan;
- we do not warrant or guarantee in any manner that you will receive all or any portion of the LRO Payments you expect to receive or that you will realize any particular or expected rate of return; and
- we do not make any representations as to a Borrower’s ability to pay (or that of its Principal(s)) and do not act as a guarantor of any corresponding Loan Payments.

Under the Investor Agreement, you represent and warrant to us that, among other things:

- you meet all minimum financial suitability standards and any maximum investment limits established for the Groundfloor Platform, as then in effect, for residents of the state in which you reside and you agree to provide us with any additional documentation as we may require to verify such compliance;
- you acknowledge that the LROs will not be listed on any securities exchange, there will be no trading platform for the LROs, any transfer or trading of LROs must be conducted in accordance with federal and applicable state securities laws, any investment in the LROs will be highly illiquid and you should be prepared to hold the LROs until our payment obligations thereunder terminate;
- you have complied in all material respects with applicable federal, state and local laws in connection with your execution and performance of your obligations under the Investor Agreement;
- you have the power to enter into and perform your obligations under the Investor Agreement; and
- if you are a person who, in the ordinary course of business, regularly participates in credit transactions, you have considered the application of the Equal Credit Opportunity Act and Regulation B promulgated thereunder, and any applicable state or local laws, regulations, rules or ordinances concerning credit discrimination, in determining whether to invest in the LROs (as limited obligations of the Company).

You also acknowledge and agree that the purchase and sale of the LROs is an arms’-length transaction and that we are not acting as your agent or fiduciary nor do we assume any advisory or fiduciary responsibility in favor of you in connection with the LROs or the corresponding Loan Payments and that you have consulted your own legal, accounting, regulatory and tax advisors to the extent you have deemed appropriate.

Under the Investor Agreement, we represent and warrant to you that, among other things, we have complied in all material respects with applicable federal, state and local laws in connection with the offer and sale of the LROs.

Prohibited Activities

By agreeing to the terms of the Investor Agreement, you also covenant and agree that, in connection with any funding requests, LROs, Loan Payments or other transactions involving or potentially involving your investment in LROs through the Groundfloor Platform, you will not:

- take any action on your own to collect, or attempt to collect from any Borrower or its Principals, directly or through any third party, any amount owing under any of your LROs or on any of the Loan Payments that correspond to your LROs;
- bring a lawsuit or other legal proceeding against any Borrower, its Principals or any other party on any Loan Documents;
- contact the Borrower or its Principals with respect to any Loan;
- contact any collection agency or law firm to which any Loan has been referred for collection;
- violate any applicable federal, state or local laws; or
- undertake any other action in breach of the terms of the applicable LRO Agreement.

Indemnification

By executing the Investor Agreement, you also agree to indemnify, defend, protect and hold harmless the Groundfloor Parties against all Losses based upon or arising out of (1) any material breach of any obligation you undertake in the Investor Agreement or in any other Investment Document, including but not limited to your obligation to comply with applicable laws; or (2) your acts and omissions and your representations (and those of your employees, agents or representatives) relating to the Groundfloor Parties. Except with respect to Losses based upon or arising out of any inaccuracy in or breach of certain fundamental representations you make to us (as set forth in Section 8 of the Investor Agreement) or of your covenant not to violate applicable laws (as contained in Section 9(e) of the Investor Agreement), your liability to us will be limited to an amount equal to the aggregate LRO Payments due under any LROs you hold. We may, among other remedies we can pursue, collect against Losses by off-setting amounts owed to you as LRO Payments. Your obligation to indemnify us survives termination of Investor Agreement, any LRO Agreement and any other Investment Document, regardless of the reason for termination.

However, to the extent that any indemnification provision in the Investor Agreement purports to include indemnification for liabilities arising under the Securities Act, you should be aware that in the SEC's opinion such indemnification is contrary to public policy and therefore unenforceable.

Servicing under the Investor Agreement

The Investor Agreement provides that we (or our agent) will service all LROs and all Loans both before and after default. In servicing such obligations, we may, in our discretion, utilize affiliated or unaffiliated third-party loan servicers, repossessioners, collection agencies or other agents or contractors. The Investor Agreement states that the terms of the LRO Agreement govern our rights and obligations with respect to actions to administer, service, collect and enforce a particular Loan. (See "General Terms of the LROs—Administration, Service, Collection, and Enforcement of Loan Documents" below.)

Modifications of the Investment Documents

You authorize us to correct obvious clerical errors appearing in information you provide to us, without notice to you, although we undertake no obligation to identify or correct such errors. We will not otherwise change, modify or alter the terms and provisions of any of the Investment Documents during the Offering Period. After completion of this Offering, we may (without giving prior notice to you) change any term or provision of the Investor Agreement, the Terms and Conditions, the Terms of Service, Privacy Policy, form of LRO Agreement (as it applies to future offerings) and the Groundfloor Platform. We will give you notice (by email) of material changes to such materials.

Marketing

Investors are attracted to Groundfloor Finance's website, www.groundfloor.com, through a variety of sources. The main marketing channels used are online channels, such as search keyword advertising, ad units on social media platforms; website banner ads; online videos hosted on media sites, on our own website, and on social networks; print media; and radio media. Groundfloor and its founders also maintain an active presence on prominent personal and professional online social networking communities, such as Facebook, LinkedIn, and Twitter. Advertising messages and online content encourage the public to learn more about our business and the Groundfloor Platform. Visitors to the Groundfloor website are encouraged to join the Groundfloor investor community by registering for an account, which is the first step in being able to invest in the Projects. Communications with community members by email and via the Groundfloor website provide information about micro-lending in real estate, developments with the Groundfloor website, company and industry news, and specifics about the investment process. Communications about specific investment opportunities or Projects available on the Groundfloor Platform are restricted in order to comply with state and federal securities regulation. Groundfloor conducts customer surveys to determine the level of investor satisfaction and to identify issues investors are having with the products and services it offers. Surveys are usually distributed by email. Groundfloor representatives will call customers at their request if they require information about the business and any investment opportunities on the Groundfloor Platform.

Technology and Data Security

Overview

Groundfloor operates its website and services through a cloud-based platform. Groundfloor owns, operates and maintains elements of this system, but significant portions are operated by third parties that Groundfloor does not control. In particular, the website and database supporting services are hosted by Heroku, Inc. ("Heroku"). Heroku provides a redundant, distributed and scalable hosting environment. Groundfloor also leverages other industry partners, including Amazon Web Services ("AWS"). AWS provides a suite of auxiliary services Groundfloor uses to supplement the website. In particular, AWS provides image and document storage, distributed domain name system and bulk email services. Groundfloor pays a monthly subscription fee for both services, which are subject to click-wrap, standard form agreements. Both Heroku and AWS have the right to terminate these agreements for cause and, should they do so, the Groundfloor business will be materially impacted because its website or critical components of its website (and thus, the Groundfloor Platform) will cease to operate until Groundfloor can find an alternative service provider. Groundfloor backs up all customer data daily and replicate within a cloud infrastructure via an encrypted connection. Both Heroku and AWS have backup copies of the data Groundfloor uploads to them, which is stored in many redundant locations around the world. Groundfloor continuously monitors the performance and availability of the Groundfloor Platform by leveraging independent third parties with checkpoints from around the world. Groundfloor aims to provide maximum uptime for our visitors by leveraging cloud infrastructure and through independent monitoring.

Groundfloor has built a highly scalable, multi-tier, redundant marketplace for investors and real estate developers. All code that makes up the website and supporting services is stored using industry best practices and leading version control provider Github, Inc. ("Github"). Groundfloor pays Github a monthly subscription fee for this service and, should Github terminate its agreement for cause, the Groundfloor business would be materially impacted because it no longer has infrastructure through which to develop its code base. Groundfloor would have to find an alternative provider. Groundfloor leverages Github's features and agile development practices to collaborate and build our product in a rapid, scalable and repeatable way.

Payment information and transactions are processed and recorded by the Funds Transfer Agent. All of the communications with the Funds Transfer Agent and other banking institutions occur over a 128 bit Secure Sockets Layer ("SSL") encrypted connection. Payment methods are tokenized and stored on the Funds Transfer Agent's Industry compliant infrastructure. Sensitive customer information is encrypted before it is stored within Groundfloor's relational database along with other customer, accounting and investing records. The Funds Transfer Agent and FBO Servicer keep a record of all funds that go into or out of the various Groundfloor accounts held with such entity. Groundfloor keep records of the same on our behalf in the Groundfloor Platform database. Groundfloor periodically reconciles the two sets of data to ensure accounting accuracy.

Data Integrity and Scalability

Communication to and from the Groundfloor Platform is transferred via the SSL protocol and a 128-bit SSL key provided by GoDaddy.com using the latest SHA-2 (2048-bit encryption) cryptographic algorithms. Information provided by investors is stored in a cloud-provided PostgreSQL relational database. Sensitive information acquired from our investors is encrypted before saving to our database using RSA 2048-bit symmetric-encryption keys. Private and public keys are stored in separate locations for maximum privacy and keys can be rotated every 12 months to conform with today's top security practices. Only our manager and Groundfloor's officers have access to customer data, and employees must request credentials to access this data and may only do so in the course of their duties.

The main database for groundfloor.com is backed up at least once a day and stored offsite. All source code and production keys are stored in multiple locations to ensure no single point of failure. Groundfloor controls access to data and systems and leverage multiple security mechanisms to reduce the chance of a security breach. All access measures and accounts are reviewed every six months. All shared accounts are required to have a password change every six months to ensure a secure controlled environment.

Competition

There are a number of existing online investment platforms, of which the leading platforms are offered by LendingClub and Prosper Marketplace. While LendingClub and Prosper Marketplace have a national presence, they are not able to transact business with lenders in all U.S. States, and neither of these platforms focuses specifically on funding real estate projects.

In the real estate space itself, there are four leading platforms, Lending Home, Realty Mogul, and Patch of Land, all of which are based in California, and Fundrise, based in Washington, D.C. Lending Home and Patch of Land compete directly in our space, providing short-term and mid-term loans for renovation projects but exclusively serve accredited and institutional investors. Realty Mogul provides equity real estate investment opportunities for mid to large projects but exclusively serves accredited investors. Fundrise provides equity, debt and REIT investment opportunities in real estate and serves both accredited and unaccredited investors, but focuses on mid-tier developers doing seven to eight figure projects.

In general, we face competition from existing financial institutions that lend to real estate developers, such as banks and specialty lenders (also known as hard money lenders). The commercial lending market for real estate lending in general and lending to single-family, multi-family, and small commercial projects in particular is competitive and rapidly changing. We expect competition to persist and intensify in the future, which could harm Groundfloor's ability to increase volume on the Groundfloor Platform. If the Groundfloor financing model achieves broad success, additional competitors are likely to enter the market. The crowdfunding provisions enacted in Title III of the JOBS Act and the Regulation "A+" provisions enacted in Title IV of the JOBS Act are likely to lower the barriers to entry for financial services platforms and may draw a significant number of competitors into the marketplace.

Increased competition could result in reduced volumes, reduced fees or the failure of the Groundfloor Platform to achieve or maintain more widespread market acceptance, any of which could harm our business. If any of the principal competitors or any major financial institution decided to compete vigorously for our customers, our ability to compete effectively could be significantly compromised and our operating results could be harmed. Most of our current or potential competitors have significantly more financial, technical, marketing and other resources than we have available and may be able to devote greater resources to the development, promotion, sale and support of their platforms and distribution channels. Our competitors may also have longer operating histories, more extensive customer bases, greater brand recognition and broader customer relationships. These competitors may be better able to develop new products, to respond more quickly to new technologies and to undertake more extensive marketing campaigns. Our industry is driven by constant innovation. If we or Groundfloor Finance are unable to stay competitive and innovative, the demand for the products and services we offer through the Groundfloor Platform could stagnate or substantially decline.

Government Regulation

U.S. State and Federal Securities Laws

The LROs offered hereby are "securities," as defined in the Securities Act and state securities laws. The Securities Act provides, among other things, that no sale of any securities may be made except pursuant to a registration statement that has been filed with the SEC and has become effective, unless such sale (or the security sold) is specifically exempted from registration. State securities laws have analogous provisions.

The Securities being offered hereby have not been registered under the Securities Act. Neither the SEC nor any state securities commission or regulatory authority approved, passed upon or endorsed the merits of this Offering. The Offering and proposed sale of Securities described herein shall be made pursuant to an exemption from registration with the SEC pursuant to Tier 2 of Regulation A and shall only be offered in states in which the registration of the offer and sale of the securities has been duly qualified.

Equal Credit Opportunity Act

The federal Equal Credit Opportunity Act ("ECOA") and the regulation issued by the Federal Reserve Board implementing the ECOA, Regulation B, prohibit discrimination in any aspect of a credit transaction on the basis of race, color, religion, national origin, sex, marital status, age (with certain limited exceptions), because all or part of the applicant's income derives from any public assistance program, or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. We comply with the ECOA's nondiscrimination requirements.

Electronic Fund Transfer Act and NACHA Rules

The federal Electronic Fund Transfer Act (“EFTA”) and Regulation E, which implements it, provide guidelines and restrictions on the electronic transfer of funds from consumers’ bank accounts. In addition transfers performed by ACH electronic transfers are subject to detailed timing and notification rules and guidelines administered by NACHA. Most transfers of funds in connection with the origination and repayment of the Loans are performed by ACH. Groundfloor obtains necessary electronic authorization from Borrowers and investors for such transfers in compliance with such rules. Transfers of funds through the Groundfloor Platform are executed by Dwolla, Inc. (our Funds Transfer Agent) and conform to the EFTA, its regulations and NACHA guidelines. Groundfloor may change the identity of our Funds Transfer Agent at any time without prior notice to you.

Electronic Signatures in Global and National Commerce Act/Uniform Electronic Transactions Act

The federal Electronic Signatures in Global and National Commerce Act (“E-SIGN”) and similar state laws, particularly the Uniform Electronic Transactions Act (“UETA”), authorize the creation of legally binding and enforceable agreements utilizing electronic records and signatures. E-SIGN and UETA require businesses that want to use electronic records or signatures in consumer transactions to obtain the consumer’s consent to receive information electronically. When a Borrower or potential investor registers on the Groundfloor Platform, both we and Groundfloor obtain his or her consent to transact business electronically and maintain electronic records in compliance with E-SIGN and UETA requirements.

Lending and Usury Regulation

We must comply with regulatory regimes, including those applicable to mortgage lending transactions, various aspects of which are untested as applied to the Groundfloor Platform. Certain state laws generally regulate interest rates and other charges we can impose and require certain disclosures. In addition, other federal and state laws may apply to the origination and servicing of Loans originated through the Groundfloor Platform. We believe we structure our Loans to Borrowers in accordance with licensing or other requirements applicable to us and to Groundfloor. To that end, we do not make Loans to finance owner-occupied residential projects, which may include a building with a limited number of residential “units.” We also require that Borrowers represent to us that the property will not be used as a residence by the Borrower and that the proceeds of the requested Loan will be used for business purposes and not for personal, family or household purposes. We may also adjust the interest rates charged on Loans to comply with applicable usury restrictions. If necessary, we (and Groundfloor, if necessary) obtain required licenses in a particular jurisdiction before facilitating Loans in such jurisdiction, or, if we determine not to obtain such license, we will not originate Loans in that particular jurisdiction.

The financial industry is becoming more highly regulated. There has been, and may continue to be, a related increase in regulatory scrutiny and investigations of the operations of peer-to-peer or micro-lending platforms as well as trading and other investment activities of alternative investment funds. Increased regulatory scrutiny and investigations of this nature may impose additional expenses on us and on Groundfloor Finance, may require the attention of Groundfloor’s senior management and may result in fines if we or it are deemed to have violated any regulations

Foreign Laws and Regulations

Groundfloor does not permit non-U.S. residents to register as members on the Groundfloor Platform, and neither we nor Groundfloor operates outside the United States. Therefore, we are not subject to foreign laws or regulations. Groundfloor operates a wholly owned subsidiary in Canada for the sole purpose of originating, closing, and servicing loan in Canada.

Employees

GRE 1 does not have any employees. As of March 28, 2017, Groundfloor Finance had 20 full-time employees and no part-time employees.

Properties

As of March 28, 2017, our Company did not own any property. Our headquarters are located in Atlanta, Georgia, shared with Groundfloor Finance, which currently leases office space under a month-to-month lease.

Legal Proceedings

As of March 28, 2017, neither GRE 1 nor Groundfloor Finance was a party to any material legal proceedings. GRE 1 and Groundfloor Finance is from time to time party to certain other legal actions in the ordinary course of our business, including foreclosure actions on Loans we have originated and other legal proceedings related to resolving Borrower defaults. We believe these actions are routine in nature and incidental to the operation of our business.

On December 21, 2016, Groundfloor Finance was informed by the securities regulatory authorities in certain states that its initial registration statement on Form U-1 for the sale of LROs in such states had expired on December 15, 2016. Between December 15, 2016 and December 21, 2016, Groundfloor Finance sold and issued three series of LROs pursuant to Post-Qualification Amendment No. 37 to Groundfloor Offering Statement on Form 1-A, dated December 8, 2015 and originally qualified on December 15, 2015. Because the original Form U-1 registering such LROs with applicable state securities regulators had expired prior to the issue and sale of the LROs, Groundfloor Finance refunded the outstanding LROs in full on January 11, 2017. Groundfloor subsequently offered and sold three new series of LROs covered under the revised Form U-1 dated December 21, 2016 relating to the same Loans pursuant to Post-Qualification Amendment No. 39 to the Offering Statement.

CAPITALIZATION

GRE 1

In accordance with the Company's Operating Agreement, the Company's parent, Groundfloor Finance, is obligated to contribute cash of \$100 to the Company but has no further obligations to make any further capital contributions to the Company. The Company has recorded this contribution as member's contribution receivable as of December 31, 2016. Groundfloor is GRE 1's sole member and manager.

Groundfloor Finance

The following tables reflect Groundfloor's capitalization as of June 30, 2019 (unaudited) and December 31, 2018 (audited). The tables are not adjusted to reflect any subsequent stock splits, stock dividends, recapitalizations or refinancings or the subsequent closings of any financings.

The historical data in the tables is derived from and should be read in conjunction with Groundfloor's consolidated financial statements included in this Offering Circular. You should also read this table in conjunction with the section entitled "Management Discussion and Analysis."

	Amounts	Amounts
	Outstanding as of	Outstanding as of
	December 31, 2018	December 31, 2018
Stockholders' Deficit:		
Common stock, no par value	\$ 10,830,464	\$ 6,125,264
Preferred stock, no par value	7,571,526	7,571,526
Additional paid-in capital	1,259,821	1,083,572
Less: Stock subscription receivable	(560)	(560)
Accumulated deficit	(19,742,767)	(17,630,508)
Total stockholders' deficit	\$ (81,516)	\$ (2,850,706)

MANAGEMENT

GRE 1 Employees

GRE 1 does not have any employees. We provide various information about the management of Groundfloor Finance, our parent and sole member and manager.

Directors, Executive Officers and Significant Employees

<u>Name</u>	<u>Position</u>	<u>Age</u>	<u>Term of Office</u>
Executive Officers:			
Brian Dally	President and CEO, and Director	46	January 2013
Nick Bhargava	Executive Vice President, Legal and Regulatory, Acting Chief Financial Officer and Secretary	33	January 2013
Directors:			
Bruce Boehm	Director (independent)	64	December 2014
Nick Bhargava	Director	33	January 2013
Brian Dally	Director	46	January 2013
Sergei Kouzmine	Director	54	November 2015
Michael Olander, Jr.	Director	35	December 2014
Richard Tuley Jr.	Director (independent)	47	December 2014
Significant Employees:			
Patrick Donoghue	Director of Lending Operations	43	March 2016
Richard Pulido	Senior Vice President and Head of Lending and Risk Management	57	December 2016
Chris Schmitt	Vice President of Software	43	February 2014

Biographies of Directors, Executive Officers and Significant Employees

Nick Bhargava (33) is a co-founder of the Company, has served on our Board of Directors and as its Secretary since our inception. Mr. Bhargava was also named Executive Vice President, Legal and Regulatory in July 2014. Mr. Bhargava completed a Practicum with SciQuest Inc. from January 2012 to May 2012 where he was responsible for reviewing and editing the company's federal securities filings and sales contracts. Previous to that, he served as a Regulatory Analyst for the Financial Services Roundtable from May 2011 to August 2011, where he reviewed and analyzed legislation and regulation, particularly the Dodd-Frank Wall Street Reform and Consumer Protection Act rulemakings. From May 2010 to August 2010, Mr. Bhargava served as an Honors Intern in Trading and Markets with the SEC, at which he was tasked with researching and analyzing the May 6, 2010 Flash Crash in addition to reviewing proposed rules, comments on proposed rules and SRO filings. As an Enforcement Intern with the Financial Industry Regulatory Authority from May 2009 to August 2009, Mr. Bhargava was responsible for developing enforcement actions against broker-dealers. Prior to these positions, Mr. Bhargava worked as a Trader for TD Waterhouse Inc. from September 2006 to February 2008 and had responsibility for taking and executing trade orders for equities and equity options for high value accounts. Mr. Bhargava received his LLM from Duke University School of Law in 2012, a JD from American University in 2011, and a BS in Biological Sciences and Business from University of Alberta in 2006.

Bruce Boehm (64) has served on our Board of Directors since December 2014. Mr. Boehm is an active angel investor in the Raleigh-Durham area and advisor to several specialty investment funds. During his career, he has been a director for more than 35 publicly and privately held companies. From 1992 to 1996, he created and directed the Masters of Engineering Management Project at the University of Canterbury in Christchurch, New Zealand. Prior to 1992, he was a General Partner of U.S. Venture Partners in Menlo Park, California, with responsibility for a portfolio of approximately 20 healthcare and technology investments. Prior to 1982, he was employed by several Silicon Valley and Route 128 companies as an engineer and project manager. Mr. Boehm received a BS from MIT in 1975 and a MS and MBA from Stanford University in 1982. Mr. Boehm qualifies as an independent director under the NASAA Statement of Policy Regarding Corporate Securities Definitions.

Brian Dally (46) is a co-founder of the Company, has served on our Board of Directors and as our President and Chief Executive Officer since the Company's inception. Prior to forming the Company, he served as the Chief Instigator of Fomentum Consulting, LLC beginning in September 2012, responsible for consulting for technology companies in the area of marketing, customer acquisition, and product development. As the Senior Vice President and General Manager of Republic Wireless, a division of Bandwidth.com, from January 2010 to September 2012, Mr. Dally led the successful formation and launch of the company's mobile division, including managing over 60 individuals and achieving a \$60 million revenue run-rate before the end of the first year of operation. From May 2008 to January 2009, Mr. Dally served as the Principal at Peripatetic Ventures Corp., a management consulting firm for high-growth technology company clients, where he assisted clients to develop partnerships to execute new product strategies and cultivate potential customer relationships in addition to conducting buyer needs research, analyzing competition, and crafting positioning and messaging. Mr. Dally has also held officer-level positions with Cecure Gaming LTD, a consumer poker and casino games service for mobile phones, and Motricity Inc., a mobile platform for entertainment and applications. Mr. Dally received a JD from Harvard Law School in June 1999, a MBA from Harvard Business School in 1999, and a BA in Political & Social Thought from the University of Virginia in 1993.

Patrick Donoghue (43) has served as our Director of Lending Operations since March 2016, previously serving in this role on a contract basis. Prior to this, Mr. Donoghue served as Senior Associate for RevitaLending from May 2015 to January 2016, where he worked to optimize the firm's capital market structure and proliferate the loan growth model. Previously serving as Vice President of Wholesale Operations for ACC Mortgage from May 2014 until May 2015, Mr. Donoghue managed the entire loan process for a significant broker channel reviewing and funding private money loan transactions. Mr. Donoghue has been active in the private lending space since 2006 underwriting, originating and servicing private money loans. Prior to this, Mr. Donoghue served as production manager and originator for various mortgage companies and began his career as a Branch Manager for the United States Senate FCU. Mr. Donoghue graduated from Edinboro University of Pennsylvania with a B.A. in Psychology in 1997.

Sergei Kouzmine (55) has served on our Board of Directors since November 2015. Mr. Kouzmine is an experienced entrepreneur, executive, and venture capitalist, founding over 10 companies in the banking, retail, and entertainment industries. During the 1990s, Mr. Kouzmine worked at Russia's Center for Financial Technologies, where he developed a Russian payment network system based on smart-card technology. Mr. Kouzmine has also held senior management positions at Invest AG, Finstar Financial Group, and Evraz Group, Russia's largest steel manufacturer. Mr. Kouzmine is the founder and managing partner of qWave Capital, a venture fund investing in emerging technologies. Mr. Kouzmine received an MS in physics from Novosibirsk State University, an MBA from the University of Chicago, Booth School of Business, and a PhD in nuclear physics from the Institute of Nuclear Physics in Russia.

Michael Olander Jr. (35) has served on our Board of Directors since December 2014. Since the Company's inception in 2005, Mr. Olander has served as CEO, in addition to being the sole member and manager, of MDO Holdings, LLC, a diversified holding company that operates three core subsidiaries: MDO2 Fitness, LLC owns and operates 28 health clubs under the names O2 Fitness and East Shore Athletic Clubs; MOREI, LLC and its affiliates own in excess of 250,000 square feet of commercial real estate; and MDO Ventures JS, LLC is an investment company with over a dozen companies currently funded. Mr. Olander sits on the board of five companies funded by MDO Ventures and serves as an advisor to two more. He earned his Bachelor of Arts in Business Administration from the College of Charleston in 2004.

Richard Pulido (57) has served as our Senior Vice President and Head of Lending and Risk Management since December of 2016. Prior to joining the Company, he had a 27-year career with Prudential Financial in commercial real estate investment spanning asset management, development, portfolio management and capital markets assignments. Mr. Pulido's last assignment was building a Secondary Market unit to address demand for floating rate mortgage product. Starting the group in 2013, he built an approximately \$1 billion book by December 2015. Between 1996 and 2012, Mr. Pulido was in the Debt Asset Management team, including 12 years as National Head of Special Servicing. Mr. Pulido successfully led the team through the credit cycle, at one point tripling head count and office count to properly address portfolio issues. During this period, he also expanded the group's scope beyond life company assets to include CMBS, Agency and third-party accounts. Concurrent with his special servicing responsibilities, for several years Mr. Pulido also led the Portfolio Management team responsible for quality rating and valuing the commercial mortgage portfolio. Additional achievements included implementing the engagement of an offshore vendor to provide supporting analytical work and defending the proprietary credit rating model to regulators, auditors and rating agencies. Mr. Pulido had previous assignments in equity asset management and development in Los Angeles and Chicago, where he began his Prudential career. Prior to his real estate career, Mr. Pulido was a Systems Engineer with Northrop Corp. in California. Mr. Pulido received his MBA from The University of Chicago Booth School of Business in 1988 and his BS in System Science and Mathematics from the University of California, Los Angeles in 1983.

Chris Schmitt (43) has served as our Vice President of Software since February of 2014, previously serving as our lead developer on a contract basis. Prior to joining the Company, he served as Senior Program Manager for Bandwidth.com beginning in January 2012, where he lead multiple teams in efforts to coordinate the release of products, created and implemented a new Beta program to improve product quality, and worked with senior management to define tasks and priorities for his teams. Mr. Schmitt served as the IT Manager of Bandwidth.com from September 2011 to January 2012, and in this role he managed a group of five developers on day-to-day operations of building and maintaining the website and back office and launch night of republic wireless including a massive scaling effort on Amazon's EC₂ services to handle peak web traffic. As Senior Borrower for Bandwidth.com from October 2010 to September 2011, Mr. Schmitt's responsibilities included organizing and acting as the team lead for the Broadband division. Also in this role, he took the division from an excel-based back office to an online back office through multiple integration, rebuilt the online customer portal with many enhanced features and reconstructed the back end to make it more scalable to meet future demand, and built a distributed ping-based product leveraging Amazon EC₂ services from multiple regions to compete with other industry participants. Mr. Schmitt served as Senior Database Administrator for Credit Suisse from August 2009 to October 2010, where he acted as a primary database administrator for over 100 servers and worked with support groups to help improve communication and processes. Mr. Schmitt also operated his own consulting firm, TreadPath Software, LLC, from August 2007 to October 2010. Mr. Schmitt received a BA in Computer Information Systems from Roger Williams University in 1997.

Richard ("Rick") Tuley Jr. (47) has served on our Board of Directors since December 2014. Mr. Tuley is an experienced real estate entrepreneur and business operator. He currently serves as the managing broker of Richard Tuley Realty, Inc., a real estate brokerage firm specializing in residential and commercial investment sales and property management which was founded in 1982. Mr. Tuley has been a licensed broker since 1992 and assumed full firm management in 2009. In addition, Mr. Tuley serves as President of Destiny Development Corporation, a Georgia-based general contracting firm founded in 2001. Destiny specializes in upscale custom and speculative residential construction and remodeling. Mr. Tuley is responsible for firm strategy, securing mortgage capital and making investment decisions. He is a third generation home builder, whose father founded two home building companies in Atlanta, Georgia. Mr. Tuley has over 25 years of experience in new home construction, lot and land development for multiple Fortune 500 companies, retail development, residential redevelopment, property management and long-term investing. Mr. Tuley is also an angel investor. He previously worked for the real estate team within Ernst & Young's entrepreneurial services group. He was also a senior associate in Leveraged Finance and the Financial Sponsors Coverage groups at UBS and a principal with Katalyst Venture Partners in New York. Between real estate and Wall Street, Mr. Tuley has been involved in well over \$1 billion in transactions during his career. Mr. Tuley earned his undergraduate degree from Georgia Tech in 1992 and his MBA from Harvard Business School in 1999. Mr. Tuley qualifies as an independent director under the NASAA Statement of Policy Regarding Corporate Securities Definitions (collectively with Mr. Boehm, the "Independent Directors").

Compensation of Our Management

Compensation of our executive officers for the 2017 fiscal year was as follows:

Name	Cash Compensation (\$)	Other compensation (\$)	Total compensation (\$)
Brian Dally	\$ 166,000	N/A	\$ 166,000
Nick Bhargava	\$ 100,000	N/A	\$ 100,000

As of the date of this Offering Circular, the Company has not compensated its outside directors for their service on our Board of Directors. Notwithstanding the foregoing sentence, Bruce Boehm and Richard Tuley, Jr. were each granted options to purchase 8,000 shares of Groundfloor Finance common stock as compensation for their service on the Board of Directors during 2015. If exercised, such options will not represent five or more percent of any class of securities. The option grants to Bruce Boehm and Richard Tuley, Jr. solely serve as service compensation and is customary for companies in our industry in order to attract and retain qualified directors. In the future, we may implement an outside director compensation program that includes grants of cash and/or equity-based awards.

Employment Agreements

Except as described below, we have entered into employment agreements with each of our officers and significant employees in the form of offer letters. Each offer letter provides for “at will” employment and sets forth the compensation arrangements for the officer. The offer letters do not provide for any arrangements for payments or benefits upon termination of employment in specified circumstances, including following a change in control.

Employment Agreement with Brian Dally, President and CEO

We entered into an Executive Employment Agreement with Brian Dally on November 14, 2014. The agreement automatically renews on a year-to-year basis unless otherwise terminated as provided therein, and has automatically renewed for an additional one year term that ends on December 31, 2018. The agreement provides that Mr. Dally will receive a base salary, which is currently \$166,000. The agreement also provides that, on or immediately after the three-month anniversary of the closing of such an equity financing, our Compensation Committee shall consider the establishment of an incentive bonus in which Mr. Dally will be eligible to participate. Mr. Dally is entitled to up to 25 business days of paid time off in each full calendar year and to receive reimbursement for all of his reasonable business expenses incurred in performing his services to us pursuant to the agreement. The agreement also provides that Mr. Dally will be entitled to severance of 12 months of his annual base salary following a Termination Without Cause or Resignation with Good Reason (each as defined in the agreement) in addition to any base salary owed through the effective date of such termination, payment for accrued unused PTO, any bonus to which Mr. Dally is entitled for a preceding period but unpaid as of the date of termination, and continued participation in Groundfloor benefit plans for 12 months. In consideration for us entering into the agreement, Mr. Dally agreed to be bound by certain non-competition and non-solicitation/interference/non-disparagement provisions during the term of the agreement and for 12 months following his termination.

In September 2017, we implemented the Salary Reduction Program. In connection with this program, Mr. Dally’s base salary was reduced to \$1,972 per month. Mr. Dally will be eligible for a bonus and salary adjustment following the completion of an equity financing by the Company of at least \$3,000,000 in aggregate gross proceeds (excluding conversion of any outstanding indebtedness) in amounts to be determined by our Board of Directors.

Employment Agreement with Nick Bhargava, Executive Vice President, Legal and Regulatory

We entered into an Executive Employment Agreement with Nick Bhargava on November 14, 2014. The agreement automatically renews on a year-to-year basis unless otherwise terminated as provided therein, and has automatically renewed for an additional one year term that ends on December 31, 2018. The agreement provides that Mr. Bhargava will receive a base salary, which is currently \$100,000. The agreement also provides that, on or immediately after the three-month anniversary of the closing of such an equity financing, our Compensation Committee shall consider the establishment of an incentive bonus in which Mr. Bhargava will be eligible to participate. Mr. Bhargava is entitled to up to 25 business days of paid time off in each full calendar year and to receive reimbursement for all of his reasonable business expenses incurred in performing his services to us pursuant to the agreement. The agreement also provides that Mr. Bhargava will be entitled to severance of 12 months of his annual base salary following a Termination Without Cause or Resignation with Good Reason (each as defined in the agreement) in addition to any base salary owed through the effective date of such termination, payment for accrued unused PTO, any bonus to which Mr. Bhargava is entitled for a preceding period but unpaid as of the date of termination, and continued participation in Groundfloor benefit plans for 12 months. In consideration for us entering into the agreement, Mr. Bhargava agreed to be bound by certain non-competition and non-solicitation/interference/non-disparagement provisions during the term of the agreement and for 12 months following his termination.

In connection with the Salary Reduction Program, Mr. Bhargava’s base salary was reduced to \$1,972 per month. Mr. Bhargava will be eligible for a bonus and salary adjustment following the completion of an equity financing by the Company of at least \$3,000,000 in aggregate gross proceeds (excluding conversion of any outstanding indebtedness) in amounts to be determined by our Board of Directors.

Lack of Separate Representation

The attorneys, accountants and other professionals who perform services for us do not represent investors, and no other counsel or professionals have been retained to represent the interests of investors who purchase LROs.

PRINCIPAL SHAREHOLDERS

GRE 1 Capital Stock

Groundfloor Finance is the sole member and manager of GRE 1.

Groundfloor Finance Capital Stock

The table below sets forth information as of September 14, 2018 with respect to ownership of our common stock (on the basis of total shares outstanding as well as with respect to shares deemed to be beneficially owned, including shares issuable upon exercise of outstanding stock options and upon conversion of outstanding preferred stock) and of our preferred stock (on the basis of each individual series as well as total shares outstanding) by (i) each of our executive officers for fiscal year 2017 who beneficially owns 10% or more of the outstanding shares of any class of capital stock, (ii) each person or entity who beneficially owns 10% or more of the outstanding shares of each class (or series within a class) of capital stock, and (iii) all of our current directors and executive officers as a group. Except as otherwise noted, the mailing address for each shareholder is 600 Peachtree Street, Suite 810, c/o Groundfloor Finance Inc., Atlanta, GA 30308. All of the outstanding stock options have been issued pursuant to the Groundfloor Finance Inc. 2013 Stock Option Plan (the “2013 Plan”). Except for options granted pursuant to this stock option plan and the preemptive rights under the Investors’ Rights Agreement (as defined below), no options, warrants or other rights to purchase our securities are held by any person.

Name and Address of Beneficial Owner	Common Stock			Preferred Stock						
	Outstanding Shares	% of Class(1)	Total Beneficially Owned Shares(2)	% of Class(3)	Shares of Series Seed(4)	% of Series Seed(5)	Shares of Series A(4)	% of Series(6)	Preferred Outstanding	% of Class
Brian Dally	550,000(7)	38.6%	550,000	24.7%	—	—	—	—	—	—
Nick Bhargava	450,000(8)	31.6%	450,000	20.2%	—	—	—	—	—	—
Sergei Kouzmine(9)	—	—	635,277	28.5%	—	—	635,277	85.0%	635,277	48.3%
Michael Olander(10)	—	—	102,134(11)	4.6%	90,384(12)	15.9%	3,750	*	94,134	7.2%
Directors and Executive Officers as a Group (6 persons)	1,000,000	70.2%	1,800,270(13)	80.9%	129,738(14)	22.8%	646,532(15)	86.5%	776,270	59.0%

* Represents less than 1%.

- (1) Based upon 1,425,478 shares of common stock outstanding on September 14, 2018.
- (2) The securities “beneficially owned” by an individual are determined in accordance with the definition of “beneficial ownership” set forth in the regulations of the SEC. Accordingly, they may include securities owned by or for, among others, the spouse and/or minor children of the individual and any other relative who resides in the home of such individual, as well as other securities as to which the individual has or shares voting or investment power or has the right to acquire within 60 days of September 14, 2018 under outstanding stock options or convertible shares of preferred stock.
- (3) Based upon 1,425,478 shares of common stock outstanding on September 14, 2018 in addition to 790,164 shares beneficially owned by our directors and officers, including 13,894 shares subject to options exercisable within 60 days of September 14, 2018 and 776,270 convertible shares of preferred stock deemed outstanding for the purposes of this calculation.
- (4) Pursuant to our Second Amended and Restated Certificate of Incorporation (the “Certificate”), shares of Series Seed and Series A Preferred Stock are convertible into common stock at the option of the holder, currently on a one-to-one basis (subject to adjustment pursuant to weighted average price protection anti-dilution provisions set forth in the Certificate). Pursuant to the Investors’ Rights Agreement, each Series Seed Investor and Series A Investor (each as defined below) has a right of first refusal to purchase such holder’s pro rata share of any equity securities, or rights, options or warrants to purchase such equity securities, or securities convertible or exchangeable into such equity securities, offered by the Company in the future subject to certain customary exceptions.
- (5) Based upon 568,796 shares of Series Seed Preferred Stock outstanding on September 14, 2018.
- (6) Based upon 747,373 shares of Series A Preferred Stock outstanding on September 14, 2018.
- (7) Mr. Dally was granted 550,000 “founder” shares of common stock on August 6, 2013. On August 30, 2013, Mr. Dally entered into a Stock Repurchase Agreement and subjected his 550,000 shares of common stock to restrictions on transfer and an option to purchase in favor of the Company. As of September 14, 2018, Mr. Dally’s shares of common stock are fully vested and no longer subject to the restrictions or option under the Stock Repurchase Agreement.
- (8) Mr. Bhargava was granted 450,000 “founder” shares of common stock on August 6, 2013. On August 30, 2013, Mr. Bhargava entered into a Stock Repurchase Agreement and subjected his 450,000 shares of common stock to restrictions on transfer and an option to purchase in favor of the Company. As of September 14, 2018, Mr. Bhargava’s shares of common stock are fully vested and no longer subject to the restrictions or option under the Stock Repurchase Agreement.
- (9) Includes shares held by FinTech Ventures Fund, LLLP (“FinTech Ventures”), for which Mr. Kouzmine holds voting and dispositive power through FinTech Ventures’ general partner, qWave Capital LLC. The address for FinTech Ventures is 3445 Stratford Road, Suite 3902, Atlanta, Georgia 30326.

- (10) Includes shares held by MDO Ventures JS LLC (“MDO Ventures”), for which Mr. Olander holds voting and dispositive power. The address for MDO Ventures is 135 E. Martin Street, Suite 201, Raleigh, North Carolina 27601.
- (11) Includes 8,000 shares subject to options exercisable within 60 days of September 14, 2018.
- (12) The average price paid by MDO Ventures per share of Series Seed Preferred Stock was \$4.51.
- (13) Includes 24,000 shares subject to options exercisable within 60 days of September 14, 2018.
- (14) In addition to the shares beneficially owned by Mr. Olander, includes 28,691 shares held by Mr. Boehm’s spouse, who has sole voting and investment power with respect to such shares, and 10,663 shares held by Richard Tuley Realty, Inc., for which Mr. Tuley holds voting and dispositive power. The address for Richard Tuley Realty, Inc. is 3745 Cherokee St. NW, Suite 605, Kennesaw, Georgia 30144.
- (15) In addition to the shares beneficially owned by Messrs. Olander and Kouzmine, includes 3,754 shares held by Mr. Boehm’s spouse, who has sole voting and investment power with respect to such shares, and 3,751 shares held by Richard Tuley Realty, Inc., for which Mr. Tuley holds voting and dispositive power.

INTEREST OF MANAGEMENT AND OTHERS IN CERTAIN TRANSACTIONS

Please see “Description of the Business of GRE 1 and of Groundfloor Finance” above for a description of the proposed transactions between GRE 1 and its sole member and manager, Groundfloor Finance. Below is a description of transactions between Groundfloor Finance and its management and other affiliates.

General Note Regarding Certain Transactions

We note that we have determined that the terms of certain transactions discussed below were as favorable to Groundfloor as those generally available from unaffiliated third parties; however, Groundfloor lacked sufficient disinterested independent directors to approve the transaction at the time it was carried out. Groundfloor Finance has pre-existing, substantive relationships with numerous sophisticated private investors across the Southeast, and particularly in the Atlanta, Georgia and the Raleigh-Durham, North Carolina areas. Groundfloor Finance marketed the potential terms for transactions described below with such private investors and confirmed that transactions with unaffiliated third parties were not available on terms as favorable to Groundfloor Finance as the terms of the financings it entered into (as described below). Further, the Series Seed Financing and the Series A Financing were each led by private investors affiliated with Messrs. Olander and Kouzmine, respectively, each of whom are seasoned investors who were not affiliated with Groundfloor Finance prior to the applicable financing.

Series Seed Financing

Certain affiliates and family members of members of the Groundfloor Finance Board participated in the Series Seed Initial Closing (before appointment to our Board) and Subsequent Closings of the Series Seed Financing (each as defined below). The table below includes the amount of such participation for each such purchaser:

Director or Affiliate	Aggregate Shares of Series Seed Stock	Initial Closing Purchase Amount	Subsequent Closings Purchase Amount	Conversion of Outstanding Convertible Promissory Note	Total Purchase Price
MDO Ventures JS LLC(1)	90,384	\$ 150,000	\$ 50,000	\$ 208,044.44	\$ 408,044.44
Nancy Luberoff(2)	28,691	\$ 30,000	\$ 30,000	\$ 68,037.78	\$ 128,047.78

(1) MDO Ventures JS LLC is an affiliate of Mr. Olander, a member of our Board.

(2) Mrs. Luberoff is the wife of Mr. Boehm, a member of our Board.

The terms of the transaction were as favorable to Groundfloor as those generally available from unaffiliated third parties. Groundfloor lacked sufficient disinterested independent directors at the time of the Series Seed Initial Closing to approve the transaction. The Subsequent Closings were approved by the Groundfloor Finance Board, including all of the disinterested independent directors.

Bridge Note Financing

During November 2015, Groundfloor Finance entered into promissory notes (the “2015 Bridge Notes”) with investors for total proceeds of \$250,000 (the “2015 Bridge Financing”). The notes incur interest at the rate of 12% per annum. The outstanding principal and all accrued but unpaid interest was due and payable on the earlier of May 5, 2016 or the closing of an equity financing with gross proceeds of at least \$4,250,000. The 2015 Bridge Notes and all accrued but unpaid interest thereunder were cancelled as consideration for shares of Series A Preferred Stock in connection with the Series A Initial Closing (as defined below). Certain affiliates and family members of members of the Board purchased notes in the offering. The table below includes the note principal amount for each such purchaser:

Director or Affiliate	Note Principal Amount
MDO Ventures JS LLC(1)	\$ 25,000
Nancy Luberoff(2)	\$ 25,000
Richard Tuley Realty, Inc.(3)	\$ 25,000

- (1) MDO Ventures JS LLC is an affiliate of Mr. Olander, a member of our Board.
- (2) Mrs. Luberoff is the wife of Mr. Boehm, a member of our Board.
- (3) Richard Tuley Realty, Inc. is an affiliate of Mr. Tuley, a member of our Board.

The terms of the transaction were as favorable to Groundfloor as those generally available from unaffiliated third parties. Groundfloor lacked sufficient disinterested independent directors to approve the transaction at the time it was carried out.

Series A Financing

On November 24, 2015 (the “Series A Initial Closing”), Groundfloor Finance issued an aggregate of 708,110 shares of our Series A Preferred Stock for aggregate consideration of approximately \$4,737,298 pursuant to that certain Series A Preferred Stock Purchase Agreement (the “Series A Purchase Agreement”), dated November 24, 2015 among the Company and the investors named therein (the “Series A Investors”). Pursuant to the Series A Purchase Agreement, Groundfloor Finance issued and sold an additional 39,263 shares of Series A Preferred Stock in subsequent closings through December 4, 2015 (collectively, the “Series A Subsequent Closings” and together with the Series A Initial Closing, the “Series A Financing”).

Certain affiliates and family members of members of the Groundfloor Finance Board participated in the Series A Financing by accepting shares of Series A Preferred Stock as consideration for the cancellation of the outstanding principal and payment of accrued interest under the 2015 Bridge Notes. The table below includes the shares of Series A Preferred Stock for each such purchaser:

Director or Affiliate	Aggregate Shares of Series A Preferred Stock	Cancellation of Bridge Note Principal	Payment of Accrued Bridge Note Interest	Total Purchase Price
MDO Ventures JS LLC(1)	3,750	\$ 25,000	\$ 90.41	\$ 25,090.41
Nancy Luberoff(2)	3,754	\$ 25,000	\$ 115.07	\$ 25,115.07
Richard Tuley Realty, Inc.(3)	3,751	\$ 25,000	\$ 98.63	\$ 25,099.63

- (1) MDO Ventures JS LLC is an affiliate of Mr. Olander, a member of our Board.
- (2) Mrs. Luberoff is the wife of Mr. Boehm, a member of our Board.
- (3) Richard Tuley Realty, Inc. is an affiliate of Mr. Tuley, a member of our Board.

The terms of the transaction were as favorable to Groundfloor as those generally available from unaffiliated third parties. Groundfloor lacked sufficient disinterested independent directors to approve the transaction at the time it was carried out.

In connection with the Series A Financing, Groundfloor Finance entered into an Amended and Restated Investors’ Rights Agreement (as amended and restated, the “Investors’ Rights Agreement”) and a Voting Agreement with the holders of our preferred stock and a Right of First Refusal and Co-sale Agreement with the Series A Investors.

The Investors’ Rights Agreement, among other things: (i) grants Groundfloor preferred stockholders specified registration rights with respect to shares of our common stock, including shares of common stock issued or issuable upon conversion of the shares of preferred stock held by them; (ii) obligates Groundfloor to deliver periodic financial statements to certain of the stockholders who are parties to the Investors’ Rights Agreement; and (iii) grants a preemptive right with respect to the holder’s pro rata share of any equity securities, or rights, options or warrants to purchase such equity securities, or securities convertible or exchangeable into such equity securities, offered by Groundfloor in the future subject to certain customary exceptions, to the stockholders who are parties to the Investors’ Rights Agreement.

The Voting Agreement, among other things, provides for the voting of shares with respect to the size and constituency of our Board of Directors. Pursuant to the Voting Agreement, Mr. Kouzmine was designated to serve as the designee of FinTech Ventures and Mr. Olander was designated to continue serve on our Board as the designee of Mr. Olander, MDO Ventures JS LLC, and their affiliates. The holders of a majority of Groundfloor common stock and Messrs. Dally and Bhargava have the right to designate the third and fourth members of the Board of Directors, respectively, which continue to be Messrs. Dally and Bhargava. The final two members of the Board of Directors shall be individuals chosen by the remaining members of the Board as independent directors, which continue to be Messrs. Boehm and Tuley.

The Right of First Refusal and Co-sale Agreement, among other things, grants the Series A Investors rights of first refusal and co-sale with respect to proposed transfers of Groundfloor securities by specified stockholders and grants Groundfloor rights of first refusal with respect to proposed transfers of Groundfloor securities by specified stockholders.

Pursuant to Article VII Section 4 of the Groundfloor Finance Bylaws, a shareholder who desires to transfer Groundfloor shares must first make a written offer to Groundfloor to purchase the shares at the same price per share and upon the same terms and conditions offered by a bona fide prospective purchaser of such shares. In connection with the Initial A Closing, Groundfloor also entered into a letter agreement with the Series A Investors to waive this right of first refusal in favor of Groundfloor for future transfers by the Series A Investors.

ISB Note

On January 11, 2017, Groundfloor Finance entered into a promissory note and security agreement (the “ISB Note”) in favor of ISB Development Corp., an affiliate of Mr. Kouzmine (“ISB”), for a principal sum of \$1,000,000. Groundfloor Finance paid to ISB an origination fee of \$10,000 concurrently with the funding by ISB of the principal of the ISB Note. The ISB Note incurs interest at the rate of 8% per annum, calculated on the basis of a 360-day year for the actual number of days elapsed. Groundfloor Finance subsequently entered into an amendment to the ISB Note extending the repayment schedule in return for a \$5,000 amendment fee. The ISB Note, as amended, must be repaid as follows: (i) \$250,000, plus any accrued but unpaid interest thereon, is due and payable on June 30, 2017, (ii) \$250,000, plus any accrued but unpaid interest thereon, is due and payable on September 30, 2017, and (iii) any remaining outstanding principal amount, plus any remaining accrued but unpaid interest, is due and payable on December 31, 2017. As of the date of this Offering Circular, the principal sum of \$1,000,000 remains outstanding.

The ISB Note is subject to customary event of default provisions. As collateral security for the ISB Note, Groundfloor Finance granted to ISB a first priority security interest in all of its assets, subject to certain exceptions. Among other things, the security interest specifically excludes (i) any assets serving as collateral for the Company’s credit facility with Revolver; (ii) any Loans for which a series of LROs has been issued, regardless of whether such Loans and corresponding series of LROs have been originated and issued by Groundfloor Finance or one of its subsidiaries, including GRE 1; and (iii) the equity interest in any subsidiary formed by Groundfloor Finance for the sole purpose of issuing Loans and corresponding series of LROs such as GRE 1.

Groundfloor Finance entered into the ISB Note for the purpose of using the proceeds for its loan advance program (see “Description of the Business of GRE 1 and of Groundfloor Finance—How the Groundfloor Platform Operates—Loan Advances” above), but may use the proceeds for other purposes in its sole discretion.

The terms of the transaction were unanimously approved by Groundfloor Finance’s disinterested independent directors (in addition to the remaining members of the board) and were as favorable to Groundfloor Finance as those generally available from unaffiliated third parties.

Purchase of LROs by Related Parties

Groundfloor Finance executive officers, directors and 10% stockholders have purchased LROs and, prior to September 2015, Georgia Notes, from time to time in the past. Such purchases have not exceeded 50% of a single series of LROs or Georgia Notes, as applicable, for any individual executive officer, director, or 10% stockholder and the Board of Directors has approved a policy that future investments in LROs by such parties shall not exceed \$50,000 in a single series of LROs, whether issued by Groundfloor Finance, GRE 1, or another affiliate. Their right to receive LRO Payments and other obligations are the same as all holders of the same series of LROs. These purchases count towards the Purchase Amount required to fully subscribe a given series of LROs. However, these purchases are made for the personal investment accounts of these individuals and not for resale, and are not directed by Groundfloor, GRE 1, or any of the Promoters (of either company), nor are the purchases made for purposes of ensuring the offering is fully subscribed. Their right to receive LRO Payments and other obligations are the same as all holders of the same series of LROs.

TRANSACTIONS WITH PROMOTERS

A majority of the Groundfloor Finance Independent Directors that do not have an interest in the transaction must approve any loan or other material affiliated transaction involving our Promoters. We and our affiliates have never made and, except for Loans that pass through the Groundfloor underwriting process, approved by a majority of Groundfloor's disinterested Independent Directors, and covered by a duly qualified offering statement, do not intend to make, loans to, or loan guarantees on behalf of, the Promoters. Further, except as discussed above, we and our affiliates have not engaged in and do not intend to engage in material transactions with the Promoters.

Any material affiliated transactions entered into by us in the future will be made on terms that are no less favorable than those that can be obtained from unaffiliated third parties. In addition, all future material affiliated transactions, and any forgiveness of loans, will be subject to approval by a majority of Groundfloor's Independent Directors, in accordance with Groundfloor Finance's Policy Regarding Transactions with Promoters.

In making the representations above, Groundfloor's officers, directors, and counsel (i) considered their diligence and assured that there is a reasonable basis for such representations, and (ii) considered whether to embody the representations in our charter or bylaws.

MANAGEMENT DISCUSSION AND ANALYSIS

You should read the following discussion in conjunction with our financial statements and the related notes and the section entitled "Description of the Business of GRE 1 and of Groundfloor Finance" elsewhere in this Offering Circular. This discussion contains forward-looking statements that involve risks and uncertainties. Actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors, including but not limited to those discussed in the section entitled "Risk Factors" and elsewhere in this Offering Circular.

Overview

Groundfloor Finance maintains and operates the Groundfloor Platform for use by Groundfloor Finance and its subsidiaries, including GRE 1, to provide real estate development investment opportunities to the public. Originally formed as Fomentum Labs LLC, a North Carolina limited liability company, in January 2013, Groundfloor Finance converted into a North Carolina corporation on July 26, 2013 under the name GROUND FLOOR Inc. Effective August 5, 2014, Groundfloor Finance changed the domiciliary state of the corporation to Georgia under the name Groundfloor Finance Inc.

LRO Program

Groundfloor Finance began offering LROs through the Groundfloor Platform in September 2015 pursuant to an offering statement (File No. 024-10440) that was qualified on August 31, 2015. Groundfloor Finance subsequently qualified two additional offering statements: the second (File No. 024-10488) was qualified on October 29, 2015 and the third (File No. 024-10496) was qualified on December 15, 2015. Beginning in mid-January 2016, Groundfloor Finance began qualifying additional series of LROs through PQAs to the offering statement qualified on December 15, 2015. Groundfloor Finance (or its affiliates) may from time to time elect to offer and sell LROs pursuant to other exemptions from federal and state registration requirements. From May through June 2017, Groundfloor Real Estate 1, LLC ("GRE 1"), a wholly-owned subsidiary of Groundfloor Finance, offered LROs through the Groundfloor Platform pursuant to an offering statement (File No. 024-10670) that was qualified that same month. In January 2018, Groundfloor Finance's offering circular (File No. 024-024-10753) was qualified by the SEC under Tier 2 of Regulation A.

Status of LROs Across Groundfloor Entities

Table 1:

Total Loans Currently Repaid 06/30/2019	A	B	C	D	E	F	G
Loans Paid at or Before Maturity (1)	61	101	191	81	5	0	0
Loans Paid Following Workout (2)	1	24	42	18	2	0	1
Loans Paid Following Fundamental Default (3)	3	4	6	4	0	1	0

- (1) Loans paid at or before maturity have paid in full with all interest due through the date of repayment.
- (2) Loans paid following workout have paid in full, past the dated maturity, but with all interest due through the date of repayment.
- (3) Loans paid after fundamental default have paid without full interest, partial principal, and / or full principal loss.

Other than the defaults referenced above, Groundfloor is not aware of any adverse business developments that have occurred in the course of its operations.

GRE 1**Results of Operations****Summary Financial Information**

The consolidated statements of operations data set forth below with respect to the six month period ended June 30, 2019 and June 30, 2018 are derived from, and are qualified by reference to, the consolidated financial statements included in this Offering Circular and should be read in conjunction with those financial statements and notes thereto.

Six Months Ended June 30, 2019 and 2018

	For the six months ended June 30,	
	2019	2018
Loan servicing revenue	\$ -	\$ 5,200
Net interest income:		
Interest income	-	95,899
Interest expense	-	(95,899)
Net interest income	-	-
Net revenue	-	5,200
Cost of revenue	-	3,250
Gross profit	-	1,950
Operating expenses:		
General and administrative	-	1,950
Total operating expenses	-	1,950
Income from operations	-	-
Net income	\$ -	\$ -

Our consolidated financial statements for the years ended December 31, 2018 include a going concern note from our auditors. Since Groundfloor's inception, Groundfloor has financed its operations through debt and equity financings. Groundfloor intends to continue financing its activities and working capital needs largely from private financing from individual investors and venture capital firms until such time that funds provided by operations are sufficient to fund working capital requirements.

Net Revenue

Net revenue for the six months ended June 30, 2019 and 2018 was \$0 and \$5.2 thousand, respectively. The Company serviced 0 and 7 developer loans during the six months ended June 30, 2019 and 2018, respectively. Loan servicing revenue are fees incurred in servicing the developer's loan.

Gross Profit

Gross profit for the six months ended June 30, 2019 and 2018 was \$0 and \$2.0 thousand, respectively. The decrease in gross profit was due to \$5.2 thousand in less net revenue, coupled by an decrease in cost of revenue of \$3.2 thousand. Cost of revenue consists primarily of vendor costs associated with facilitating and servicing loans.

General and Administrative Expense

General and administrative expense for the six months ended June 30, 2019 and 2018 were \$0 and \$2.0 thousand, respectively, a decrease of \$2.0 thousand. General and administrative expenses consists primarily of management fees charged by GROUND FLOOR.

Net Income

We did not generate any net income during the six months ended June 30, 2019 and 2018.

Liquidity and Capital Resources

The consolidated financial statements included in this Offering Circular have been prepared assuming that Groundfloor will continue as a going concern; however, the conditions discussed below raise substantial doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should Groundfloor be unable to continue as a going concern.

Groundfloor incurred a net loss for the years ended December 31, 2018 and December 31, 2017, and have an accumulated deficit as of December 31, 2018 of \$17.6 million. Since our inception, Groundfloor have financed our operations through debt and equity financing from various sources. Groundfloor are dependent upon raising additional capital or seeking additional equity financing to fund our current operating plans for the foreseeable future. Failure to obtain sufficient equity financing and, ultimately, to achieve profitable operations and positive cash flows from operations could adversely affect our ability to achieve its business objectives and continue as a going concern. Further, there can be no assurance as to the availability or terms upon which the required financing and capital might be available.

	For the six months ended June 30, 2019	For the six months Ended June 30, 2018
Operating activities	\$ -	\$ -
Investing activities	-	1,669,809
Financing activities	-	(2,001,109)
Net (decrease) in cash	\$ -	\$ (331,300)

Net cash used in operating activities for the six months ended June 30, 2019 and 2018 was \$0. Net cash used in operating activities includes interest income and interest expense accrued for loans and LROs, respectively.

Net cash provided by investing activities for the six months ended June 30, 2019 and 2018 was \$0 and \$1.7 million, respectively. Net cash provided by investing activities primarily represents repayment of loans to developers.

Net cash used in financing activities for the six months ended June 30, 2019 and 2018 was \$0 and \$2.0 million, respectively. Net cash used in financing activities primarily represents proceeds from the issuance of LROs to investors through the Groundfloor Platform offset by repayments of LROs to investors.

Results of Operations

Summary Financial Information

The consolidated statements of operations data set forth below with respect to the fiscal years ended December 31, 2018 and December 31, 2017 are derived from, and are qualified by reference to, the consolidated financial statements included in this Offering Circular and should be read in conjunction with those financial statements and notes thereto.

Fiscal Year Ended December 31, 2018 and 2017

	For the year ended December 31,	
	2018	2017
Loan servicing revenue	\$ 5,200	\$ 16,400
Net interest income:		
Interest income	95,899	216,437
Interest expense	(95,899)	(216,437)
Net interest income	-	-
Net revenue	5,200	16,400
Cost of revenue	3,250	10,250
Gross profit	1,950	6,150
Operating expenses:		
General and administrative	1,950	5,100
Total operating expenses	1,950	5,100
Income from operations	-	1,050
Net income	\$ -	\$ 1,050

Our consolidated financial statements for the years ended December 31, 2018 include a going concern note from our auditors. Since Groundfloor's inception, Groundfloor has financed its operations through debt and equity financings. Groundfloor intends to continue financing its activities and working capital needs largely from private financing from individual investors and venture capital firms until such time that funds provided by operations are sufficient to fund working capital requirements.

Net Revenue

Net revenue for the years ended December 31, 2018 and 2017 was \$5.2 thousand and \$16.4 thousand, respectively. The Company serviced 7 and 33 developer loans during the years ended December 31, 2018 and 2017, respectively. Loan servicing revenue are fees incurred in servicing the developer's loan.

Gross Profit

Gross profit for the years ended December 31, 2018 and 2017 was \$2.0 thousand and \$5.1 thousand, respectively. The decrease in gross profit was due to \$11.2 thousand in less net revenue, coupled by an decrease in cost of revenue of \$7.0 thousand. Cost of revenue consists primarily of vendor costs associated with facilitating and servicing loans.

General and Administrative Expense

General and administrative expense for the years ended December 31, 2018 and 2017 were \$2.0 thousand and \$5.1 thousand, respectively, a decrease of \$3.2 thousand or 61.8%. General and administrative expenses consists primarily of management fees charged by GROUND FLOOR.

Net Income

Net income for the years ended December 31, 2018 and 2017 was \$0 and \$1.0 thousand, respectively, a net income decrease of \$1.0 thousand.

Liquidity and Capital Resources

The consolidated financial statements included in this Offering Circular have been prepared assuming that Groundfloor will continue as a going concern; however, the conditions discussed below raise substantial doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should Groundfloor be unable to continue as a going concern.

Groundfloor incurred a net loss for the years ended December 31, 2018 and December 31, 2017, and have an accumulated deficit as of December 31, 2018 of \$17.6 million. Since our inception, Groundfloor have financed our operations through debt and equity financing from various sources. Groundfloor are dependent upon raising additional capital or seeking additional equity financing to fund our current operating plans for the foreseeable future. Failure to obtain sufficient equity financing and, ultimately, to achieve profitable operations and positive cash flows from operations could adversely affect our ability to achieve its business objectives and continue as a going concern. Further, there can be no assurance as to the availability or terms upon which the required financing and capital might be available.

	For the year ended December 31, 2018	For the year Ended December 31, 2017
Operating activities	\$ -	\$ -
Investing activities	2,757,421	(2,743,606)
Financing activities	(3,126,721)	3,133,006
Net (decrease) increase in cash	\$ (369,300)	\$ 389,400

Net cash used in operating activities for the years ended December 31, 2018 and 2017 was \$0. Net cash used in operating activities includes interest income and interest expense accrued for loans and LROs, respectively.

Net cash provided by investing activities for the years ended December 31, 2018 was \$2.8 million and net cash used in investing activities for the years ended December 31, 2017 was \$2.7 million, respectively. Net cash provided by investing activities primarily represents repayment of loans to developers. Net cash used in investing activities primarily represents loan payments to developers offset by the repayment of loans to developers.

Net cash used in financing activities for the years ended December 31, 2018 was \$3.1 million and net cash provided by financing activities for the years ended December 31, 2017 was \$3.1 million. Net cash provided by financing activities primarily represent repayments of LROs to investors. Net cash used in financing activities primarily represents proceeds from the issuance of LROs to investors through the Groundfloor Platform offset by repayments of LROs to investors.

Groundfloor Finance

Overview

Groundfloor Finance Inc. (“Groundfloor” or “Groundfloor Finance”) maintains and operates the Groundfloor Platform for use by us and Groundfloor subsidiaries to provide real estate development investment opportunities to the public. Groundfloor was originally organized as a North Carolina limited liability company under the name of Fomentum Labs LLC on January 28, 2014. Fomentum Labs LLC changed its name to Groundfloor LLC on April 26, 2014, and converted into a North Carolina corporation on July 26, 2014. In connection with this conversion, all equity interests in Groundfloor LLC were converted into shares of our common stock. Effective August 5, 2015, Groundfloor changed its domiciliary state to Georgia under the name Groundfloor Finance Inc. The unaudited condensed consolidated financial statements include Groundfloor’s wholly-owned subsidiaries, including Groundfloor GA (as defined below), which was created for the purpose of financing real estate properties in Georgia, Holdings, which was created for the purpose of facilitating our loan advance program by entering into the Revolver, and GRE 1, which sold and issued LROs through the Groundfloor Platform from May to July 2017.

Summary Financial Information of Groundfloor Finance

The unaudited condensed statements of operations data set forth below with respect to the six months ended June 30, 2019 and June 30, 2018 are derived from, and are qualified by reference to, the unaudited condensed consolidated financial statements included in this Offering Circular and should be read in conjunction with those unaudited condensed consolidated financial statements and notes thereto.

	<u>Six Months Ended June 30, 2019</u>	<u>Six Months Ended June 30, 2018</u>
Non-interest revenue:		
Origination fees	\$ 1,216,642	\$ 415,741
Loan servicing revenue	752,162	416,892
Total non-interest revenue	<u>1,968,804</u>	<u>832,633</u>
Net interest income:		
Interest income	2,854,020	1,229,386
Interest expense	(2,245,280)	(1,008,149)
Net interest income	<u>608,740</u>	<u>221,237</u>
Net revenue	2,577,544	1,053,870
Cost of revenue	(328,706)	(158,378)
Gross profit	<u>2,248,838</u>	<u>895,492</u>
Operating expenses:		
General and administrative	940,396	971,678
Sales and customer support	1,264,973	1,012,967
Development	356,836	259,812
Regulatory	189,068	168,154
Marketing and promotions	591,799	916,830
Total operating expenses	<u>3,343,072</u>	<u>3,329,441</u>
Loss from operations	<u>(1,094,234)</u>	<u>(2,433,949)</u>
Interest expense	1,018,025	411,413
Net loss	<u>\$ (2,112,259)</u>	<u>\$ (2,845,362)</u>

Funding Loan Advances

To date, the Company has entered into three financial arrangements designed to facilitate Loan advances.

In November 2016, the Company entered into the Revolver credit facility to fund Loan advances (as defined below). The terms of the credit facility are as follows: Interest accrues at the greater of 10.0% per annum or the weighted average annual interest rate of the Loans then held by Holdings which have been originated with proceeds from the credit facility. The revolving credit facility was originally limited to \$1.5 million with an option to increase the limit to \$15.0 million (under certain circumstances). As of December 31, 2018 the capacity is \$5.5 million and the maturity date is April 4, 2019 and is extendable for another additional year. The Company has given a corporate guaranty to Revolver Capital, now ACM Alamosa DA LLC, as additional support for the credit facility. ACM Alamosa DA LLC will also have a lien on the general assets of Holdings—which is made up exclusively of Loans that Holdings has originated. However, only Holdings, and its successors and assigns, are identified as a secured party in any documentation used to secure the advanced Loans. At no point will Holdings hold (or provide ACM Alamosa DA LLC a securities interest in) any Loan for which LROs have been issued.

When Holdings is not able to draw sufficient funds from this credit facility fast enough, the Company may elect to provide Holdings with a short term, non-interest bearing, full recourse loan using its operational capital to fund advances.

On January 11, 2017, Groundfloor entered into the ISB Note (as defined below) for a principal sum of \$1.0 million, which was subsequently increased to \$2.0 million, for the purpose of using the proceeds for our loan advance program, but may use the proceeds for other purposes in our sole discretion. The principal outstanding as of June 30, 2019 was \$1.7 million.

In November 2018, Groundfloor entered into various GROUND FLOOR Notes, secured promissory notes, with accredited investors. The GROUND FLOOR Notes are used for the purpose of the Company to originate, buy, and service loans for the purpose of building, buying, or rehabilitating single family and multifamily structures, or buying land for commercial purposes. The principal outstanding as of June 30, 2019 was \$4.6 million.

Financial Position and Operating History

In connection with their audit for the years ended December 31, 2018 and December 31, 2017, Groundfloor’s auditors raised substantial doubt about its ability to continue as a going concern due to Groundfloor’s losses and cash outflows from operations. To strengthen its financial position, Groundfloor has continued to raise additional funds through convertible debt and equity offerings.

Groundfloor has a limited operating history and have incurred a net loss since our inception. Our net loss was \$2.1 million for the six months ended June 30, 2019. To date, Groundfloor has earned limited revenues from origination and servicing fees charged to borrowers in connection with the loans made by the Company and its wholly-owned subsidiaries GRE 1 and Groundfloor GA corresponding to the LROs and Georgia Notes. Groundfloor has funded our operations primarily with proceeds from our convertible debt and preferred stock issuances, which are described below under “Liquidity and Capital Resources”. Over time, Groundfloor expects that the number of borrowers and lenders, and the volume of loans originated through the Groundfloor Platform, will increase and generate increased revenue from borrower origination and servicing fees.

The proceeds from the sale of LROs described in this Offering Circular will not be used to directly finance Groundfloor’s operations. Groundfloor will use the proceeds from sales of LROs exclusively to originate the Loans that correspond to the corresponding series of LROs sold to investors. However, Groundfloor collects origination and servicing fees on Loans Groundfloor is able to make to Developers, which Groundfloor recognizes as revenue. The more Loans Groundfloor is able to fund through the proceeds of our offerings, the more fee revenue Groundfloor will make. With increased fee revenue, our financial condition will improve. However, Groundfloor does not anticipate this increased fee revenue to be able to support our operations through the next twelve months.

Groundfloor's operating plan calls for a continuation of the current strategy of raising equity and, in limited circumstances, debt financing to finance its operations until Groundfloor reach profitability and become cash-flow positive, which Groundfloor does not expect to occur before 2019. Groundfloor's operating plan calls for significant investments in website development, security, investor sourcing, loan processing and marketing, and for several rounds of equity financing before Groundfloor reaches profitability. Groundfloor completed its Series A Financing in December 2015, through which Groundfloor raised an aggregate of approximately \$5.0 million (including the cancellation of the 2015 Bridge Notes (as defined below)), Groundfloor has raised an aggregate of \$2.1 million as of December 31, 2017 through Groundfloor's 2017 Note Financing (as defined below), Groundfloor has raised approximately \$4.2 million in Groundfloor's 2018 Common Stock Offering, and approximately \$2.6 million in the 2019 Common Stock Offering, in order to fund operations. See "Liquidity and Capital Resources" below.

Results of Operations

Six Months Ended June 30, 2019 and 2018

	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Non-interest revenue:		
Origination fees	\$ 1,216,642	\$ 415,741
Loan servicing revenue	752,162	416,892
Total operating revenue	<u>1,968,804</u>	<u>832,633</u>
Net interest income:		
Interest income	2,854,020	1,229,386
Interest expense	<u>(2,245,280)</u>	<u>(1,008,149)</u>
Net interest income	<u>608,740</u>	<u>221,237</u>
Net revenue	2,577,544	1,053,870
Cost of revenue	<u>(328,706)</u>	<u>(158,378)</u>
Gross profit	2,248,838	895,492
Operating expenses:		
General and administrative	940,396	971,678
Sales and customer support	1,264,973	1,012,967
Development	356,836	259,812
Regulatory	189,068	168,154
Marketing and promotions	591,799	916,830
Total operating expenses	<u>3,343,072</u>	<u>3,329,441</u>
Loss from operations	<u>(1,094,234)</u>	<u>(2,433,949)</u>
Interest expense	1,018,025	411,413
Net loss	<u>\$ (2,112,259)</u>	<u>\$ (2,845,362)</u>

Groundfloor's unaudited condensed consolidated financial statements for the years ended December 31, 2018 include a going concern note from its auditors. Since Groundfloor's inception, Groundfloor has financed its operations through debt and equity financings. Groundfloor intends to continue financing its activities and working capital needs largely from private financing from individual investors and venture capital firms until such time that funds provided by operations are sufficient to fund working capital requirements.

Net Revenue

Net revenue for the six months ended June 30, 2019 and 2018 was \$2.6 million and \$1.1 million, respectively. The Company facilitated the origination of 285 and 108 developer loans during the six months ended June 30, 2019 and 2018, respectively. Origination fees and loan servicing revenue were earned related to the origination of these developer loans. Origination fees are determined by the term and credit risk of the developer loan and range from 1.0% to 6.0%. The fees are deducted from the loan proceeds at the time of issuance. Loan servicing revenue re fees incurred in servicing the developer's loan. Additionally, Groundfloor incurred net interest income during the loan advance period. The increase in net interest income is due to the increase in overall portfolio size as the Company originated 163% more loans than the previous period. Groundfloor expects operating revenue to increase as its loan application and processing volume increases.

Gross Profit

Gross profit for the six months ended June 30, 2019 and 2018 was \$2.2 million and \$0.9 million, respectively. The increase in gross profit was due to \$1.5 million in additional net revenue, offset by an increase in cost of revenue of \$0.2 million. Cost of revenue consists primarily of payment processing and vendor costs associated with facilitating and servicing loans. Groundfloor expects gross profit to increase as its loan application and processing volume increases.

General and Administrative Expense

General and administrative expense for the six months ended June 30, 2019 and 2018 were \$0.9 million and \$1.0 million, respectively, a slight decrease of \$0.1 million or 10.0%. General and administrative expenses consists primarily of employee compensation cost, professional fees, consulting fees and rent expense.

Sales and Customer Support

Sales and customer support expense for the six months ended June 30, 2019 and 2018 were \$1.3 million and \$1.0 million, respectively, an increase of \$0.3 million or 24.9%. Sales and customer support expense consists primarily of employee compensation cost. The increase was primarily due to an increase in compensation related to increased origination production during the period. Groundfloor expect sales and customer support expense will continue to increase due to the planned investment in developer acquisition and customer support required to support its growth.

Development Expense

Development expense for the six months ended June 30, 2019 and 2018 were \$0.4 million and \$0.3 million, respectively, an increase of \$0.1 million or 37.3%. Development expense consists primarily of employee compensation cost and the cost of subcontractors who work on the development and maintenance of our website and lending platform. The increase was primarily due to increases in compensation cost related to increased headcount. Groundfloor expects development expense will continue to increase due to the planned investments in our website and lending platform required to support our technology infrastructure as Groundfloor grows.

Regulatory Expense

Regulatory expense for the six months ended June 30, 2019 and 2018 held constant at \$0.2 million for both periods. Regulatory expense consists primarily of legal fees and compensation cost required to maintain SEC and other regulatory compliance. Groundfloor expects regulatory expense may increase due to the additional expense related to qualifying our offerings with the SEC, including our transition to Tier 2 under Regulation A, which will require complying with ongoing reporting requirements with the SEC and certain filing fees with applicable state regulatory authorities.

Marketing and Promotions Expense

Marketing and promotions expense for the six months ended June 30, 2019 and 2018 were \$0.6 million and \$0.9 million, respectively, a decrease of \$0.3 million or 35.5%. Marketing and promotions expense consists primarily of consulting expense, compensation cost as well as promotional and advertising expense. The decrease was primarily due to a decrease in investor and borrower acquisition.

Interest Expense

Interest expense for the six months ended June 30, 2019 and 2018 was \$1.0 million and \$0.4 million, respectively, an increase of \$0.6 million. The company incurred \$0.3 million in interest expense warehousing loans on the Revolver. Cash paid for interest on the Revolver was \$0.4 million in the six months ended June 30, 2019. Interest expense related to the Subordinated Convertible Note (as defined below) of \$33 thousand was recognized during the six months end June 30, 2019 and is recorded as an accrued expense as of June 30, 2019. Interest expense related to the ISB Note of \$0.2 million was recognized during the six months ended June 30, 2019. Cash paid for interest on the ISB Note was \$0.2 million in the six months ended June 30, 2019.

Net Loss

Net loss for the six months ended June 30, 2019 and 2018 was \$2.1 million and \$2.8 million, respectively, a net loss decrease of \$0.7 million or 25.8%. Operating expense consist primarily of compensation cost, legal fees, consulting and subcontractor cost as well as advertising and promotional expense. Operating expense for the six months ended June 30, 2019 and 2018 was consistent over the period at \$3.3 million. Operating expenses were held constant during the period to realize investment made in the prior period.

Liquidity and Capital Resources

The unaudited condensed consolidated financial statements included in this Offering Circular have been prepared assuming that Groundfloor will continue as a going concern; however, the conditions discussed below raise substantial doubt about our ability to continue as a going concern. The unaudited condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should Groundfloor be unable to continue as a going concern.

Groundfloor incurred a net loss for the six months ended June 30, 2019 and 2018, and have an accumulated deficit as of June 30, 2019 of \$19.7 million. Since our inception, Groundfloor have financed our operations through debt and equity financing from various sources. Groundfloor are dependent upon raising additional capital or seeking additional equity financing to fund our current operating plans for the foreseeable future. Failure to obtain sufficient equity financing and, ultimately, to achieve profitable operations and positive cash flows from operations could adversely affect our ability to achieve its business objectives and continue as a going concern. Further, there can be no assurance as to the availability or terms upon which the required financing and capital might be available.

	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Operating activities	\$ (2,593,030)	\$ (2,651,092)
Investing activities	(13,615,640)	(3,416,205)
Financing activities	17,186,827	6,808,669
Net increase in cash	\$ 978,157	\$ 741,372

Net cash used in operating activities for the six months ended June 30, 2019 and 2018 was \$2.6 million and \$2.7 million, respectively. Net cash used in operating activities funded salaries, expense for contracted marketing, development and other professional service providers and expense related to sales and marketing initiatives.

Net cash used in investing activities for the six months ended June 30, 2019 and 2018 was \$13.6 million and \$3.4 million, respectively. Net cash used in investing activities primarily represents loan payments to developers offset by the repayment of loans to developers.

Net cash provided by financing activities for the six months ended June 30, 2019 and 2018 was \$17.2 million and \$6.8 million, respectively. Net cash provided by financing activities primarily represents proceeds from the issuance of Georgia Notes and LROs to investors through the Groundfloor Platform, proceeds from the 2018 Common Stock Offering and private placement, offset by repayments of Georgia Notes and LROs to investors.

Groundfloor issued and sold 91,259 shares Series Seed Preferred Stock at an initial closing on December 5, 2014 (the "Series Seed Initial Closing"), for total proceeds of \$475 thousand, pursuant to the Series Seed Preferred Stock Purchase Agreement (the "Series Seed Purchase Agreement"), dated December 5, 2014 between us and the investors named therein (the "Series Seed Investors"). In addition, at the Series Seed Initial, the entire unpaid principal and interest outstanding under certain previously-issued convertible promissory notes converted into 276,391 additional shares of Series Seed Preferred Stock. Groundfloor issued and sold an aggregate of 201,146 additional shares of Series Seed Preferred Stock, for total proceeds of \$1.1 million, at subsequent closings on April 1, 2015, May 12, 2015 and August 31, 2015 (collectively, the "Series Seed Subsequent Closings" and together, with the Series Seed Initial Closing, the "Series Seed Financing"). Pursuant to the Series Seed Purchase Agreement, the Company sold each share of Series Seed Preferred Stock for \$5.205 per share. In connection with the Series Seed Financing, Groundfloor also entered into an Investors' Rights Agreement with the Series Seed Investors and certain holders of our common stock, which was subsequently amended and restated in connection with the Series A Financing. The shares of Series Seed Preferred Stock were offered and sold pursuant to the federal exemption from registration set forth in Rule 506 of Regulation D under the Securities Act. The Series Seed Financing terminated following the final Series Seed Subsequent Closing and Groundfloor does not intend to sell any additional shares of Series Seed Preferred Stock.

During November 2015, Groundfloor entered into promissory notes with investors for total proceeds of \$250 thousand (the “2015 Bridge Notes”). The notes incur interest at the rate of 12% per annum. The outstanding principal and all accrued but unpaid interest was due and payable on the earlier of May 5, 2016 or the closing of an equity financing with gross proceeds of at least \$4.3 million. The 2015 Bridge Notes and all accrued but unpaid interest thereunder were cancelled as consideration for 37,561 shares of Series A Preferred Stock in connection with the Series A Initial Closing. The notes were offered and sold pursuant to the federal exemption from registration set forth in Rule 506 of Regulation D under the Securities Act. The 2015 Bridge Notes Financing terminated with the closing of the Series A Financing.

In addition, Groundfloor issued and sold 709,812 shares of Series A Preferred Stock at an initial closing on November 24, 2015 and subsequent closings through December 2015, for total gross proceeds of approximately \$4.7 million, pursuant to the Series A Preferred Stock Purchase Agreement. Pursuant to the Series A Purchase Agreement, the Company sold each share of Series A Preferred Stock for \$6.69 per share. The shares of Series A Preferred Stock were offered and sold pursuant to the federal exemption from registration set forth in Rule 506 of Regulation D under the Securities Act. The Series A Financing terminated in December 2015 and Groundfloor does not intend to sell any additional shares of Series A Preferred Stock.

On November 1, 2016, Holdings, the Company’s wholly-owned subsidiary, as borrower, entered into a revolving credit facility (the “Revolver”) with Revolver Capital. The credit agreement (the “Credit Agreement”) provides for revolving loans up to a maximum aggregate principal amount of \$1.5 million (the “Revolving Credit Commitments”). The Revolver will be used for bridge funding of underlying loans pending approval from the SEC. The term of the Revolver was extended in October 2017 and will mature on April 4, 2019.

On November 11, 2016, the Company entered into a First Amendment to the Credit Agreement, which amended the Credit Agreement to increase the Revolving Credit Commitments thereunder from \$1.5 million to \$2.5 million. On December 21, 2016, the Company entered into a Second Amendment to the Credit Agreement, which amended the Credit Agreement to increase the Revolving Credit Commitments thereunder from \$2.5 million to \$3.5 million. On April 7, 2017, the Company entered into a Third Amendment to the Credit Agreement, which increased the Revolving Credit Commitments thereunder from \$3.5 million to \$4.5 million. The other terms of the credit facility remain unchanged.

On April 4, 2018, the Credit Agreement dated as of November 2, 2016, as amended by the First Amendment as of November 14, 2016, the Second Amendment dated as of February 22, 2017 and the Third Amendment dated as of April 7, 2017, was assigned to ACM Alamosa DA LLC. The Company and the lender agreed to amend and restate the Original Credit Agreement in its entirety. The other terms of the credit facility remain unchanged.

As of December 31, 2018, the Company had \$0.0 million of available borrowings and \$5.5 million outstanding under the Revolver as presented within revolving credit facility on the consolidated balance sheets. As of December 31, 2018 and 2017, the Company reflected \$7 thousand and \$1 thousand, respectively, of deferred financing cost related to the Revolver as a reduction to the revolving credit facility on the consolidated balance sheets.

On January 11, 2017, Groundfloor entered into the ISB Note in favor of ISB for a principal sum of \$1.0 million. Groundfloor paid to ISB an origination fee of \$10 thousand concurrently with the funding by ISB of the principal of the ISB Note. Groundfloor subsequently entered into an amendment to the ISB Note extending the repayment schedule in return for a \$5 thousand amendment fee, a second amendment increasing the principal amount outstanding to \$2.0 million for a \$30 thousand amendment fee, a third amendment further extending the repayment schedule among other terms described below in return for a \$10 thousand amendment fee, and a fourth amendment further extending the repayment schedule among other terms described below for a \$10 thousand amendment fee.

The ISB Note incurs interest at the rate of 8% per annum from January 11, 2017 until September 30, 2017 and 14% per annum from October 1, 2017 until payment in full of the ISB Note, in each case calculated on the basis of a 360-day year for the actual number of days elapsed. The ISB Note must be repaid as follows: (i) \$50,000, plus any accrued but unpaid interest thereon, commencing on April 30, 2019, and each month thereafter, (ii) \$1,000,000, plus any accrued but unpaid interest thereon, is due and payable on October 3, 2019, and (iii) any remaining outstanding principal amount, plus any remaining accrued but unpaid interest, is due and payable on December 31, 2020. As of the date hereof, the principal sum was paid in full and the note is no longer outstanding.

The ISB Note includes certain financial covenants related to the Company's quarterly financial results and operating capital. The ISB Note is subject to customary event of default provisions. Upon the occurrence of any event of default, the interest rate under the ISB Note shall increase by 7%. As collateral security for the ISB Note, Groundfloor granted to ISB a first priority security interest in all of its assets, subject to certain exceptions. Among other things, the security interest specifically excludes (i) any assets serving as collateral for the Company's credit facility with Revolver Capital; (ii) any Loans for which a series of LROs has been issued, regardless of whether such Loans and corresponding series of LROs have been originated and issued by us or one of our subsidiaries; and (iii) the equity interest in any subsidiary formed by us for the sole purpose of issuing Loans and corresponding series of LROs.

In connection with the third amendment to the ISB Note, the Company agreed to issue to ISB a warrant for the purchase of shares of our common stock on the first day of each quarter commencing on October 1, 2017 until the ISB Note is repaid in full for the purchase of the following number of shares: (i) for each quarter until and including the first quarter of 2019, 4,000 shares of common stock; (ii) for the second quarter of 2019, 3,500 shares of common stock, (iii) for the third quarter of 2019, 2,300 shares of common stock; and (iv) for the fourth quarter of 2019, 1,100 shares of common stock.

From March 2017 to December 2017, Groundfloor issued subordinated convertible notes (the "Subordinated Convertible Notes") to investors for total proceeds of \$2.1 million (the "2017 Note Financing"). On October 27, 2017, the Company entered into amendments to the outstanding Subordinated Convertible Notes and related Subordinated Convertible Promissory Note Purchase Agreement raising the principal amount of Subordinated Convertible Notes that may be sold to \$2.0 million, extending the maturity date, and allowing the Subordinated Convertible Notes, at the option of the holders, to convert outstanding principal and accrued but unpaid interest into shares of the Company's common stock as described below. In November 2017, Groundfloor issued Subordinated Convertible Notes to investors for additional proceeds of \$675 thousand. Furthermore, in December 2017, Groundfloor oversubscribed and issued Subordinated Convertible Notes to investors for additional proceeds of \$550 thousand. The notes incur interest at the rate of 8% per annum. The outstanding principal and all accrued but unpaid interest is due and payable on the earlier of October 3, 2019 or the consummation of a sale of the Company by consolidation, merger, change of majority ownership, or sale or other disposition of all or substantially all of the assets of the Company (the "Maturity Date"). In the event of a closing of a preferred stock financing with gross proceeds of at least \$8.0 million ("Qualified Preferred Financing") prior to the Maturity Date, the outstanding principal and all accrued but unpaid interest would become automatically converted into shares of our preferred stock issued in the financing at a price per share equal to 75% of the price per share of the preferred stock financing. In the event of a closing of a common stock financing under Regulation A with gross proceeds of at least \$3.0 million ("Qualified Common Financing") prior to the Maturity Date, then each holder may elect, in its discretion, to convert the outstanding principal and all accrued but unpaid interest into shares of our common stock issued in the financing at a price per share equal to 90% of the price per share of the common stock financing. The indebtedness represented by the Subordinated Notes is subordinated in all respects to the principal of (and premium, if any), unpaid interest on and amounts reimbursable, fees, expenses, costs of enforcement, and other amounts due in connection with the Revolver and ISB Note.

On February 9, 2018, Groundfloor launched an offering of our common stock under Tier 2 of Regulation A pursuant to an offering statement on Form 1-A qualified by the SEC (the “2018 Common Stock Offering”). As described in this Offering Circular, Groundfloor is offering up to 500,000 shares of our common stock at \$10 per share, with a minimum investment of \$100, or 10 shares of common stock. The aggregate initial offering price of our common stock will not exceed \$5,000,000 in any 12-month period, and there is no minimum offering amount. Groundfloor is also offering a Bonus Share Program where Groundfloor may issue up to 30,000 additional bonus shares of our common stock pursuant to the terms of this Offering Circular. As of December 31, 2018, Groundfloor issued 437,917 shares of common stock in the 2018 Common Stock Offering for \$4.2 million in proceeds.

On October 12, 2018, the Company entered into a common stock purchase agreement for private placement of 125,000 shares of the Company’s common stock for proceeds of \$1.5 million.

In January 2019, various noteholder’s converted outstanding restated subordinated convertible notes payable and accrued interest of \$1.3 million into 143,210 shares of common stock as triggered by the 2018 Common Stock Offering.

On January 11, 2019, Groundfloor launched an offering of our common stock under Tier 2 of Regulation A pursuant to an offering statement on Form 1-A qualified by the SEC (the “2019 Common Stock Offering”). As described in this Offering Circular, Groundfloor is offering up to 900,000 shares of our common stock at \$15 per share, with a minimum investment of \$150, or 10 shares of common stock. As of June 30, 2019, Groundfloor issued 437,917 shares of common stock in the 2018 Common Stock Offering for \$2.6 million in proceeds.

Groundfloor has incurred losses since its inception, and Groundfloor expects it will continue to incur losses for the foreseeable future. Groundfloor requires cash to meet its operating expenses and for capital expenditures. To date, Groundfloor has funded its cash requirements with proceeds from its convertible note and preferred stock issuances. Groundfloor anticipate that it will continue to incur substantial net losses as it grows the Groundfloor Platform. Groundfloor does not have any committed external source of funds, except as described above. To the extent our capital resources are insufficient to meet its future capital requirements, Groundfloor will need to finance its cash needs through public or private equity offerings or debt financings. Additional equity or debt financing may not be available on acceptable terms, if at all. On October 30, 2017, Groundfloor filed an offering statement on Form 1-A with the SEC for a proposed offering of its common stock. On February 9, 2018, Groundfloor’s offering statement on Form 1-A was qualified to issue Groundfloor common stock.

Plan of Operation

Prior to September 2015, Groundfloor’s operations were limited to issuing Georgia Notes solely in Georgia to Georgia residents pursuant to an intrastate crowdfunding exemption from registration under the Securities Act and qualification under Georgia law. On September 7, 2015, the SEC qualified Groundfloor’s first offering statement on Form 1-A covering seven separate series of LROs corresponding to the same number of Projects in eight states and the District of Columbia. Subsequently, Groundfloor has not issued, and do not intend to issue in the future, any additional Georgia Notes. Since that time, Groundfloor has qualified two additional offering statements on Form 1-A in addition to an offering statement on Form 1-A qualified for GRE 1, its wholly-owned subsidiary, in each case under Tier 1 of Regulation A. In January 2018, Groundfloor’s offering statement relating to the offer and sale of limited recourse obligations (the “LRO Offering Circular”) was qualified by the SEC under Tier 2 of Regulation A, raising the annual aggregate amount of LROs which Groundfloor may offer and sell to \$50 million, less any other securities sold by Groundfloor under Regulation A (including pursuant to this Offering Circular). Groundfloor has filed, and intends to continue to file, post-qualification amendments to the LRO Offering Circular on a regular basis to include additional series of LROs. Groundfloor expect to expand the number of states in which Groundfloor offers and sells LROs during the next 12 months. With this increased geographic footprint, Groundfloor expects that the number of borrowers and corresponding investors, and the volume of loans originated through the Groundfloor Platform, will increase and generate increased revenue from borrower origination and servicing fees.

As the volume of Groundfloor loans and corresponding offerings increase, Groundfloor plans to continue the current strategy of raising equity and, in limited circumstances, debt financing to finance our operations until Groundfloor reaches profitability and becomes cash-flow positive, which Groundfloor does not expect to occur before 2019. Future equity or debt offerings by Groundfloor will be necessary to fund the significant investments in website development, security, investor sourcing, loan processing and marketing necessary to reach profitability. Groundfloor expects to hire more staff to support its expected growth in operations and to invest heavily in marketing throughout the next year.

Off-Balance Sheet Arrangements

We do not engage in any off-balance sheet financing activities. We do not have any interest in entities referred to as variable interest entities, which include special purpose entities and other structured finance entities.

GENERAL TERMS OF THE LROS

GRE 1 will issue the LROs in distinct series, each corresponding to a Project and Loan described in more detail in “The LROs Covered by this Offering Circular” below, the Project Summaries beginning on page PS-1, and the form of LRO Agreement beginning on page LRO-1. LROs will be issued in denominations of \$10 and integral multiples of \$10. Your rights and obligations as a holder of LROs and our rights and obligations with respect thereto are governed by the Investor Agreement and, more particularly, the LRO Agreement (which also governs the purchase and sale of the LROs). A copy of the standard form of LRO Agreement begins on page LRO-1 of this Offering Circular. The LRO Agreement applicable to each particular series of LROs being offered hereby is available by hyperlink through the Groundfloor Platform on the corresponding Project Summary.

LRO Payments and Term

On each LRO in a series, GRE 1 will pay to each holder thereof the Purchase Amount and the Accrued Return earned thereon. Our obligation to make such LRO Payments is limited, in all circumstances, to an amount equal to the holder’s pro rata share of the amount of Loan Payments, if any, actually received on the corresponding Loan. Payment on each series of LROs will be dependent upon our receipt of Loan Payments in connection with the corresponding Loan. We will make LRO Payments within five business days of receipt of the corresponding Loan Payments. The LRO Agreement gives us sole discretion in applying amounts we receive from, or for the account of, the Borrower, with respect to the corresponding Loan, and we may make LRO Payments out of any funds at our disposal.

We may prepay the LROs at any time without penalty and our payment obligation may be satisfied by making LRO Payments to investors of an amount that may be more or less than the expected yield, on a date different than originally specified. If, as a result of any prepayment, all of the Purchase Amount of, and Accrued Return earned on, the LRO through the date of payment have been paid in full, our obligation to make any LRO Payments thereunder will automatically terminate (and the corresponding LRO shall be of no further force or effect). We will prepay a given series of LROs as and when a Borrower on the corresponding Loan makes a full payment of principal and accrued interest to us ahead of the maturity on the corresponding Loan.

Subject to the servicing standards set forth in the LRO Agreement, we have the power to modify the terms of the Loan in connection with our administration, servicing, collection and enforcement of the Loan, which could impact our obligation to make payments to you and, in some instances, could result in the loss of your entire investment. All LRO Payments will be made directly to your funding account and will be made in U.S. dollars. All U.S. dollar amounts used in or resulting from the calculation of amounts due in respect of the LRO may be rounded to the nearest cent (with one-half cent being rounded upward). The LRO is not payable at your option. Any taxes due and payable on any LRO Payments are your sole responsibility; you agree to reimburse us promptly for any such taxes paid by us.

Our obligation to make LRO Payments automatically terminates (and the corresponding LRO shall be of no further force or effect) on the final payment date, which is the maturity date of the corresponding Loan, assuming the entire Purchase Amount and Accrued Return earned thereon have been paid to the holder at that time. Our obligation to make LRO Payments is automatically extended (up to a maximum of two years) if such amounts were not paid on the final payment date (or, for administrative convenience, within five business days thereof). In such case, our obligation to make LRO Payments on such series of LROs will terminate on the earlier of (i) the date on which the remaining Purchase Amount of, or Accrued Return earned on, the LRO through the date of payment has been paid in full, (ii) the date on which all available Collection Proceeds have been applied and the holder's pro rata share thereof paid as LRO Payments in accordance with the terms of the LRO Agreement, or (iii) the extended payment date. We will not have to make any further LRO Payments (irrespective of whether the expected yield on the LRO has been paid in full), after the extended payment date.

Since LRO Payments are conditioned upon the receipt by the Company of Loan Payments on the corresponding Loan, the anticipated repayment schedule of the LROs generally reflects that of the corresponding Loan, which, like the LRO, is subject to prepayment without penalty. The repayment schedule for the Loans will vary by Project; however, typically, repayment is made either as a balloon payment at maturity or interest only on a monthly/quarterly basis, with the principal amount paid at maturity.

Relationship of the Parties

The LRO Agreement sets forth the relationship between you and the Company with respect to each series of LROs you are purchasing. Our duties to you are limited to those obligations explicitly set forth in the Investment Agreement and the LRO Agreement, and we assume no other duties, fiduciary or otherwise, to you.

Pursuant to the terms of the LRO Agreement, you and we agree that (i) we (or one of our affiliates) may have advanced funds to originate the Loan prior to the Original Issue Date and may sell additional LROs of the series relating to the Loan from time to time; (ii) you will be considered the legal and equitable owner of the LRO governed by the LRO Agreement for all purposes; (iii) you will look only to the Company for payment of the Purchase Amount and any Accrued Return earned on the LRO; and (iv) you have no interest in any property of the Company (including any of its affiliates), the Borrower or its Principals taken as security or guaranty for the Loan or in any property in our possession or control, which other property may secure the Loan.

Further, neither we (nor any of our agents) will incur liability by acting upon any notice, consent, certificate, or other instrument or writing believed by us (or our agent) to be genuine and signed by or sent by the proper party.

By entering into the LRO Agreement, you also expressly waive and release, as a condition of and as part of the consideration for the issuance of the LRO, any recourse under or upon any obligation, covenant or agreement contained in the LRO Agreement, or because of any obligations evidenced therein, against any incorporator, or against any past, present or future member or manager or any shareholder, officer or director, as such, of any member or manager of the Company, either directly or through the Company, under any rule of law, statute (other than applicable federal securities laws) or constitutional provision or by the enforcement of any assessment or penalty or otherwise.

Events of Default

You will have no recourse against us (or any of our affiliates) under the LRO Agreement unless, and then only to the extent that an Event of Default (as defined below) has occurred and is continuing. In no event will Groundfloor Finance, in its capacity as servicer, nor any of its officers or affiliates have any liability for any amounts due in connection with the LROs or the corresponding Loans. An "Event of Default" will be deemed to occur if:

- (1) we fail to comply with our payment obligations set forth in the LRO Agreement and such failure continues for a period of 60 days after receipt by the Company of notice from you;
- (2) we fail to comply with any of our agreements in the Investor Agreement or the LRO Agreement (other than those referred to in paragraph (1) above and other than a covenant or warranty, the breach of which is specifically discussed below) and such failure continues for 60 days after receipt by the Company of notice from you, provided, however, that, if we proceed to take curative action which, if begun and prosecuted with due diligence, cannot be completed within a period of 60 days, then such period shall be increased to such extent as shall be necessary to enable us diligently to complete such curative action;
- (3) a court of competent jurisdiction enters (a) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable bankruptcy law or (b) a decree or order adjudging the Company bankrupt or insolvent, or seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Company or of any substantial part of our property, or ordering the wind up or liquidation of our affairs, and any such decree or order for relief shall continue to be in effect, or any such other decree or order shall be unstayed and in effect, for a period of 60 consecutive days; or
- (4) (a) we commence a voluntary case or proceeding under any applicable bankruptcy law or any other case or proceeding to be adjudicated bankrupt or insolvent, (b) we consent to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable bankruptcy law or to the commencement of any bankruptcy or insolvency case or proceeding against it, (c) we file a petition or answer or consent seeking reorganization or substantially comparable relief under any applicable federal or state law, or (d) we (i) consent to the filing of such petition by, the appointment of, or taking possession by, a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official of the Company or of any substantial part of its property or (ii) make an assignment for the benefit of creditors.

If an Event of Default specified in paragraph (1) or paragraph (2) above occurs and is continuing, upon your notification to us, the outstanding and unpaid Purchase Amount (or portion thereof) of the LRO, and all unpaid Accrued Return earned thereon, will become and be immediately due and payable, subject in each case to certain limitations set forth in the LRO Agreement, notwithstanding any other provision of the LRO Agreement. A default under paragraph (1) or (2) above is not an Event of Default until you notify us of the default and we do not cure such default within the time specified in paragraph (1) or (2) above after receipt of such notice.

If an Event of Default specified in paragraph (3) or paragraph (4) above occurs and is continuing, the outstanding and unpaid Purchase Amount (or portion thereof) of the LRO Agreement, and all unpaid Accrued Return earned thereon, will become and be immediately due and payable without any declaration or other act on your part, notwithstanding any other provision of the LRO Agreement. You, by notice to us, may rescind acceleration and its consequences if (i) the rescission would not conflict with any judgment or decree, and (ii) all Events of Default specified in paragraph (3) or paragraph (4) have been cured or waived. No such rescission shall affect any subsequent Event of Default or impair any right consequent thereto. There will be no automatic acceleration of the outstanding and unpaid Purchase Amount (or portion thereof) of the LRO, or any unpaid Accrued Return earned thereon, upon the occurrence of an Event of Default other than an Event of Default specified in paragraph (3) or paragraph (4).

Ranking

The LROs will not be contractually senior or contractually subordinated to any indebtedness of the Company. The LROs will be unsecured special, limited obligations of GRE 1 only. Holders of the LROs do not have a security interest in the corresponding Loans or the proceeds of those corresponding Loans, or in any assets of the Company (or of Groundfloor Finance or its subsidiaries), or of any Borrower or of its Principal(s). Investing in LROs is not without risk, and actual receipt of the expected yield in the time frame specified is not guaranteed. The LROs are not obligations of the Borrowers or their Principals, and we do not guarantee payment on the corresponding Loans. We have the authority to modify the terms of the corresponding Loans which could, in certain circumstances, reduce (or eliminate) the expected return on your investment. We may prepay the LROs at any time without penalty and our payment obligation may be satisfied by making LRO Payments to investors of an amount that may be more or less than the expected yield, on a date different than originally specified. See “Risk Factors—You may receive a different return on your investment than originally expected and could suffer a complete loss of your investment.”

You will not have any recourse against us unless, and then only to the extent that, we have failed to pay your LRO Payment when due or have otherwise breached a covenant of the LRO Agreement. We will be obligated to make payments on the LROs only if and to the extent we receive Loan Payments on the corresponding Loan. We will pay to each holder of the corresponding series of LROs an amount equal to such holder’s pro rata share of amounts. Loan Payments will be secured by the assets of the corresponding Project.

In the event of a bankruptcy or similar proceeding of the Company, the relative rights of the holder of a LRO as compared to the holders of our other unsecured indebtedness with respect to payment from the proceeds of the Loan repayment or other assets of the Company is uncertain. See “Risk Factors—Risks Related to the Company and the Groundfloor Platform—If we were to become subject to a bankruptcy or similar proceeding . . .” and “Risk Factors—In a bankruptcy or similar proceeding of the Company . . .”

Unsecured Obligations

The LROs are unsecured limited obligations of the Company. We perfect a lien on the real estate and other assets underlying the Project to secure the Borrower’s payment obligations to us; however, the LROs are unsecured, and you as a holder of a LRO will not have a security interest in the corresponding Loans or the proceeds of those corresponding Loans, or in any assets of the Company (or of Groundfloor Finance or its subsidiaries), or of any Borrower or of its Principal(s). Further, you will not have any recourse against the Borrower or its Principals. Your recourse against us is limited to the amount of any LRO Payments we owe you (as determined pursuant to the terms of the corresponding LRO Agreement). Investing in LROs is not without risk, and actual receipt of the expected yield in the time frame specified is not guaranteed. We have the authority to modify the terms of the corresponding Loans which could, in certain circumstances, reduce (or eliminate) the expected return on your investment.

Abandonment

We may abandon an offering of a particular series of LROs at any time prior to issuance. If we abandon an offering of a particular series of LROs, we will promptly (but under no circumstances more than 48 hours following receipt of a withdrawal notice from the Borrower or our determination to abandon the offering) release all funds (without interest) committed to purchase that series; after which, you may elect to transfer such funds to your bank account or make a commitment to purchase a different series of LROs.

Withdrawn Offerings

We may withdraw an offering of a particular series of LROs at any time prior to its issuance. Offerings are typically withdrawn due to the need to correct or modify specific disclosures about the terms of the related series of LROs and the series of LROs that correspond to Loans that are withdrawn are typically re-qualified at a later date. More often than not, we withdraw Loans from an offering before commencing the Offering Period for the corresponding LROs. However, if commitments have been made towards a series that is withdrawn, we will promptly release all funds (without interest) committed to purchase that series; after which, you may elect to transfer such funds to your bank account or make a commitment to purchase a different series of LROs.

Prepayments

Generally, outside of the context of a Borrower default, we will only prepay a series of LROs if the Borrower prepay the corresponding Loan. Our obligation to make any LRO Payments will automatically terminate (and the corresponding LRO shall be of no further force or effect) once all of the Purchase Amount of, and Accrued Return earned on, any LRO through the date of payment is paid in full.

Representations and Warranties

Under the LRO Agreement, you will represent and warrant to us that:

- you are purchasing the LROs for your own account;
- based on your overall investment objectives, portfolio structure and financial situation, you can bear the economic risk of an investment in the LROs;
- (as of the date of the LRO Agreement and as of the date you have committed to purchase the LROs) you have received a copy of the Offering Circular (including all applicable supplements and PQAs) with respect to the LROs;

- after acknowledging that the purchase of the LROs involves various risks, including, but not limited to, the risk that you may lose your entire investment and the other risks outlined in this Offering Circular (including all applicable supplements and PQAs), you are able to bear any loss associated with an investment in the LROs;
- you meet any applicable residency or minimum financial suitability requirements applicable to the Offering, as outlined in the Offering Circular and have abided by any maximum investment limits applicable to the Offering, as set forth in the Offering Circular (including all applicable supplements and PQAs) (and you agree to provide any additional documentation reasonably requested by the Company (or its agents), or as may be required by the SEC or the securities administrator of any state, to confirm that you meet and have satisfied such offering limits);
- you acknowledge our recommendation that you consult with your own attorneys, accountants and other professional advisors as to the legal, tax, accounting and other consequences of an investment in the LROs;
- you acknowledge that neither we nor any of our affiliates has made any representation regarding the proper characterization of the LROs for purposes of determining your authority to invest in the LROs; and
- you acknowledge that the LROs will not be listed on any securities exchange, that there will be no trading platform or secondary market for the LROs, that any trading of LROs must be conducted in accordance with federal and applicable state securities laws and that you should be prepared to hold the LROs through maturity.

You further warrant and represent to us, as of the date of the LRO Agreement and as of any date that you commit to purchase LROs, that (1) you have the power to enter into and perform your obligations under the LRO Agreement; (2) the LRO Agreement has been duly authorized, executed and delivered by you; and (3) in connection with the LRO Agreement you have complied in all material respects with applicable federal, state and local laws. In addition, if you are a corporation, partnership, limited liability company or other entity (each, an “institution”), the institution warrants and represents that (w) the individual executing the LRO Agreement on behalf of the institution has all necessary power and authority to execute and perform the LRO Agreement on the institution’s behalf; (x) the execution and performance of the LRO Agreement will not violate any provision in the institution’s charter documents, by-laws, indenture of trust or partnership agreement, or other constituent agreement or instrument governing the institution’s formation or administration; and (y) the execution and performance of the LRO Agreement will not constitute or result in a breach or default under, or conflict with, any order, ruling or regulation of any court or other tribunal or of any governmental commission or agency, or any agreement or other undertaking to which the institution is a party or by which it is bound.

The Company represents and warrants to you that the Company has the power to enter into the LRO Agreement and each applicable Loan Document and that the Company has taken all action necessary to authorize its execution and delivery of the LRO Agreement and each applicable Loan Document and the performance of its obligations thereunder. Except for the representations and warranties contained in this Offering Circular (including all applicable supplements and PQAs), the LRO Agreement and the Investor Agreement, neither we nor any other person has made or makes any other express or implied representations or warranty, either written or oral, on behalf of the Company with respect to the LROs.

Notice of Loan Default

All transactions under the Loan Documents are handled in the ordinary course of business in accordance with customary practices. We will use commercially reasonable efforts to give you notice of any event of default under the Loan Documents of which we have received written notice from the Borrower or of which we have actual knowledge and which, in our judgment, materially affects the ability of the Borrower to make payments thereunder; provided that neither we nor any of our members and managers, and the officers, directors, shareholders, employees and agents of its members and managers will be liable for any failure to give any such notice. Our failure to give any such notice shall not affect any of your duties and obligations under the LRO Agreement.

Administration, Service, Collection, and Enforcement of Loan Documents

When Groundfloor Finance undertakes administration, servicing, collection and enforcement activities on a Loan on our behalf, it does so in each particular circumstance, in accordance with specific servicing standards set forth in the LRO Agreement, with the goal of maximizing the amount of the LRO Payments to be paid to investors prior to termination of our limited payment obligation thereunder. The LRO Agreement provides that, in administering, servicing, collecting and enforcing a Loan, we (or our agent) will use commercially reasonable efforts prior to the extended payment date to pursue, either directly or through our representatives, (i) the collection of any amounts owing to us under the Loan Documents (to the extent constituting Loan Payments) and (ii) the exercise of our remedies upon a breach or default under the Loan Documents or in order to avoid the occurrence thereof, in each case, to the extent warranted in our business judgment and consistent with reasonable commercial standards of fair dealing and in accordance with industry standards customary for loans of the same general type and character as the Loans in order to maximize the amount of LRO Payments to be made under the terms of the LRO. Without limiting the foregoing and subject to the servicing standards set forth in the LRO Agreement, we (or our agent) will have the right at any time and from time to time, without your consent, and provided that we (or our agent) have reasonably and prudently determined that such action will not be materially adverse to the relevant holders of LROs (i) to give or withhold waivers, consents, extensions, or compromises in connection with the Loan Documents and to amend or modify the Loan Documents, including, while there exists, or in order to avoid the occurrence of, an event of default under the Loan Documents, to change the payment date, reduce the principal amount or the rate of interest, change the time or manner of making loan payments on the Loan or amend any other material term of the Loan; (ii) to take or refrain from taking action in connection with the handling, realizing upon, exercise of remedies, or enforcing with respect to the Loan Documents; (iii) to control the prosecution and defense of any action, claim, or demand of any kind that shall be asserted against either us or a holder of LROs, or both, directly or indirectly relating to any transaction in respect of any of the Loan Documents; (iv) while an event of default exists under the Loan Documents, to enforce any security interest in the assets pledged to secure the Loan or sell all or any portion of our rights, title and interest to any person under the Loan Documents, whether at, below or above par; and (v) if in our business judgment the reasonable costs and expenses associated with further action to collect or enforce the terms of the Loan Documents will exceed the aggregate Loan Payments reasonably recoverable or realizable, to write-off the Loan if we (or our agent) deem the Loan uncollectible. For example, in the context of a Borrower default, the Company may negotiate to extend payment dates and could agree to a modified payment plan that could result in the LRO holder receiving less than the expected return at the Extended Payment Date. Without limiting the foregoing and subject to the servicing standards set forth in the LRO Agreement, if an event of default under the Loan Documents occurs which is not waived by us or cured within any applicable grace period, we may, at our sole option, exercise or refrain from exercising any rights or remedies we may have or take any other action with respect to the Loan Documents or is otherwise available to us. In addition, at no time shall we be under any duty to enforce any rights, remedies, powers, or privileges with respect to any enforcement of the obligations of the Borrower under any of the Loan Documents, and we will not be compelled to do any act or to take any action toward the exercise or enforcement of the powers created by the LRO Agreement or any of the Loan Documents or to prosecute or defend any suit in respect thereof.

Notwithstanding these broad powers, you and we acknowledge in the LRO Agreement that, in circumstances other than Borrower default or prepayment, the modification of a term of the corresponding Loan could be deemed to be a material modification of the terms of your LRO. In such instance, it is possible that the modified series of LROs would constitute a new security under the Securities Act and under applicable State securities laws. You and we acknowledge in the LRO Agreement that, before implementing any modification to the terms of the corresponding Loan (other than in circumstances involving Borrower default or prepayment) that would cause your LROs (as modified) to constitute a new security, the Company will be required to either register the offer of the modified LRO under Section 5 of the Securities Act and under applicable State securities laws or find an exemption from such registration requirements.

Collection Proceeds, Costs, and Expenses

Subject to the application of Loan Payments received as Collection Proceeds and our ability to prepay the LRO, we are obligated to pay to each holder of a LRO the Purchase Amount and the Accrued Return earned thereon as LRO Payments. Our obligation to make LRO Payments is limited, in all circumstances, to an amount equal to the holder's pro rata share of the amount of Loan Payments, if any, actually received on the corresponding Loan. For these purposes, the LRO Agreement also specifies that LRO Payments include "Collection Proceeds," which includes amounts received in connection with any exercise of the Company's powers to administer, service, collect and enforce the terms of the Loan or of the Loan Documents including, without limitation amounts received (i) as late charges and default or penalty interest, or as payment of any principal or accrued interest on the Loan that may be reduced, or (ii) in connection with the enforcement of any security interest in the assets pledged to secure the Loan, or (iii) in connection with a sale of the Company's rights, title and interest under the Loan Documents. The LRO Agreement provides that any and all Collection Proceeds we receive will be applied (x) first, to all Collection Costs, (y) second, to earned and unpaid Accrued Return owed on the LRO, and (z) third, to the Purchase Amount of the LRO then outstanding.

As a result, we are required to pay each holder of a series of LROs an amount equal to such holder's pro rata share of the Collection Proceeds (net of Collection Costs) secured with respect to the corresponding Loan prior to the extended payment date. However, you and we agree, and you expressly acknowledge in the LRO Agreement, that the exercise by us (or our agents) of our powers to administer, service and enforce the terms of the Loan and the Loan Documents, (1) could have the effect (without any further action on your part) of adjusting the total amount of the LRO Payments owed to you and (2) that such adjustment shall not, in and of itself, give rise to an "Event of Default" under the terms of the LRO Agreement. Without limiting the foregoing, you and we expressly acknowledge that payment of amounts corresponding to the amount of certain Collection Proceeds (such as late charges, default interest or penalty interest charged on the Loan) could automatically *increase* the total amount of the LRO Payments owed to you under the terms of the LRO, and prepayment by the Company of the LRO, payment of amounts corresponding to other types of Collection Proceeds (such as amounts resulting from any reduction in outstanding principal and accrued interest on the Loan, we (or our agent) may agree to, or of amounts received by us in connection with the enforcement of any security interest in the assets pledged to secure the Loan, or in connection with a sale of our rights, title and interest under the Loan Documents) or, if we (or our agent) elects to write-off the Loan, could automatically *decrease* the total amount of the LRO Payments owed to you under the terms of the LRO. If, in connection with our powers to administer, service, collect and enforce the terms of the Loan and the Loan Documents, we (or our agents) take action that would materially impact the amount or timing of the LRO Payments owed

to you under the LRO Agreement, we will promptly notify you (by email) thereof and of the impact such action will or is expected to have on your right to receive LRO Payments thereunder. Furthermore, in circumstances other than Borrower default or prepayment, the modification of a term of a Loan (e.g., a reduction in the interest rate charged on the Loan) could be deemed to be a material modification of the terms of the corresponding series of LROs. In such instance, it is possible that the modified series of LROs would constitute a new security under the Securities Act and under applicable State securities laws. Before implementing any modification to the terms of a Loan (other than in circumstances involving Borrower default or prepayment) that would cause the corresponding series of LROs (as modified) to constitute a new security, the Company will be required to either register the offer of the modified LRO under Section 5 of the Securities Act and under applicable State securities laws or find an exemption from such registration requirements.

Denominations, Form, and Registration

We will issue the LROs only in registered form and only in electronic form and, other than the LRO Agreement, you will not receive a physical instrument. This means that each LRO will be stored on the Groundfloor Platform. You can view a record of the LROs you own and the form of your LRO Agreement online and print copies for your records by visiting your secure, password-protected webpage (referred to as the “Investor Dashboard” in the “My Account” section of the Groundfloor Platform). You will be required to hold your LROs through the Groundfloor Platform’s electronic LRO register.

We will treat the investors in whose names the LROs are registered as the owners thereof for the purpose of receiving payments and for all other purposes whatsoever with respect to the LROs.

No Public Market

The LROs do not contain any provision restricting their transferability, other than the requirements that any transfer be conducted consistent with applicable law, any transferee to register as an investor with us, and such transferee agrees to the terms of the Investor Agreement and the LRO Agreement governing such series of LROs. However, the LROs will not be listed on any securities exchange, nor do we have plans to establish any kind of trading platform to assist investors who wish to sell their LROs. There is no public market for the LROs, and none is expected to develop. Accordingly, you may be required to hold your LROs to maturity. Certain states, including California and Texas, also impose additional statutory restrictions on secondary trading of the LROs purchased in the Offering, which may further restrict the transferability of the LROs. Prospective investors are urged to consult their own legal advisors with respect to secondary trading in the LROs.

THE LROS COVERED BY THIS OFFERING CIRCULAR

This Offering Circular relates only to the offer and sale of the separate series of LROs corresponding to the Projects for which GRE 1 extends Loans. Each series of LRO is denominated by the corresponding Project’s name. The table below identifies series of LROs being offered pursuant to this Offering Circular and the Purchase Amount for each such series. Additional terms and details applicable to a particular series of LROs are reflected on the corresponding Project Summary beginning on page PS-1 of this Offering Circular. The Project Summaries can also be accessed on the Groundfloor Platform.

Series of LROs/Project	Aggregate Purchase Amount/Loan Principal	
1257 East 169 th St., S. Holland, IL 60473	\$	150,950
140 Holly Road NW, Atlanta, GA 30314	\$	166,580
Total	\$	317, 530

PLAN OF DISTRIBUTION

Overview

We offer each series of LROs at 100% of the Loan Principal. GRE 1 will only offer and sell the LROs through the Groundfloor Platform, which is owned and operated by Groundfloor Finance. We are not using a selling agent or finder in connection with this Offering. We will use our website as an online portal and information management tool in connection with the Offering. The final Offering Circular (or PQA) and the specific form of LRO Agreements corresponding to each series of LROs being offered hereby will be furnished to prospective investors and will be available for viewing and download through the Groundfloor Platform 24 hours per day, seven days per week as an electronic PDF file via a hyperlink on each Project Summary. Before committing to purchase LROs, each investor will consent to receive the final Offering Circular (or PQA), in addition to other Disclosures, electronically.

We will commence the offering of each series of LROs promptly after the date this Offering Circular is qualified by posting on the Groundfloor Platform a separate landing page corresponding to each particular Loan and Project. The offering of each series of LROs covered by this Offering Circular will remain open until the earlier of (i) 30 days, unless extended, or (ii) the date the Offering of a particular series of LROs is fully subscribed with irrevocable funding commitments; however, we may extend the Offering Period for a particular series of LROs in our sole discretion (with notice to potential investors) up to a maximum of 45 days. We will notify investors who have previously committed funds to purchase such series of LROs of any such extension by email and will post a notice of the extension on the corresponding Project Summary on the Groundfloor Platform.

A commitment to purchase LROs becomes irrevocable following expiration of the Withdrawal Period. Commitments to purchase LROs made after expiration of the Withdrawal Period, if any, are irrevocable when authorized and may not be withdrawn. Unless previously advanced, the closing and funding of the Loan will occur on the original issue date of the LROs. If the offering of a series of LROs is withdrawn or abandoned before the end of the Offering Period, we will notify investors and promptly release committed funds and make them available in their funding accounts.

State Law Exemption and Offerings to “Qualified Purchasers”

The LROs are being offered and sold only to “qualified purchasers” (as defined in Regulation A under the Securities Act of 1933). As a Tier 2 offering pursuant to Regulation A under the Securities Act, this offering will be exempt from state “Blue Sky” law review, subject to certain state filing requirements and anti-fraud provisions, to the extent that the LROs are offered and sold only to “qualified purchasers”. “Qualified purchasers” include: (i) “accredited investors” under Rule 501(a) of Regulation D and (ii) all other investors so long as their investment in the LROs does not represent more than 10% of the greater of their annual income or net worth (for natural persons), or 10% of the greater of annual revenue or net assets at fiscal year-end (for non-natural persons). Accordingly, we reserve the right to reject any investor’s subscription in whole or in part for any reason, including if we determine in our sole and absolute discretion that such investor is not a “qualified purchaser” for purposes of Regulation A.

Subscribing for the LROs

In order to subscribe to purchase the LROs, a prospective investor must electronically sign and deliver the Investor Agreement, including the Terms and Conditions, must agree to the Terms of Service, and the Privacy Policy, and must electronically sign and deliver the LRO Agreement relating to that particular series of LROs. While the specific form of LRO Agreement corresponding to each series of LROs being offered hereby will be furnished and available as set forth above, at the time a prospective investor makes a non-binding commitment for a particular series of LROs, we will provide (by hyperlink) a PDF copy of the LRO Agreement that is applicable to such investor’s particular investment. This version of the LRO Agreement will reflect the terms of the investor’s proposed investment (including the Purchase Amount and Accrued Return earned thereon); however, the original issue date, final payment date and extended payment date will be reflected as “to be determined,” since those dates are dependent upon the original issue date. Following the issuance of the LROs and without any action on the part of any investor, we will (i) revise the LRO Agreement to identify the actual original issue date, final payment date and extended payment date, (ii) notify investors who purchased the LROs (by email) of such change, and (iii) make available to such investors a copy of the LRO Agreement (as revised) through the Investor Dashboard on the Groundfloor Platform.

We reserve the right to reject any investor’s subscription or commitment in whole or in part for any reason. If the Offering terminates or if any prospective investor’s subscription or commitment is rejected, all funds received from such investors will be released and made available in such investor’s funding account without interest or deduction.

Investors will be notified within two business days (by email and through a notice on the Project Summary) that the Loan has been funded and the LROs have been issued. The email notice will include confirmation of the original issue date, final payment date, and extended payment date for such series of LROs (as well as information on how to access the final version of the LRO Agreement through the Groundfloor Platform), an active hyperlink to the URL where the final Offering Statement (which includes the final Offering Circular) may be obtained via EDGAR, and the contact information where a request for a copy of the final Offering Circular can be sent.

In addition to this Offering Circular, subject to limitations imposed by applicable securities laws, we may use additional advertising, sales and other promotional materials in connection with the Groundfloor Platform. These materials may include public advertisements and audio-visual materials, in each case only as authorized by us. Although these materials will not contain information in conflict with the information provided by this Offering Circular and will be prepared with a view to presenting a balanced discussion of risk and reward with respect to the LROs, these materials will not give a complete understanding of this Offering, the Company or the LROs and are not to be considered part of this Offering Circular. All written offers will include an active hyperlink to a PDF copy of the final Offering Circular. This Offering is made only by means of this Offering Circular, and prospective investors must read and rely on the information provided in this Offering Circular in connection with their decision to invest in the LROs.

Advertising, Sales and other Promotional Materials

In addition to this offering circular, subject to limitations imposed by applicable securities laws, we expect to use additional advertising, sales and other promotional materials in connection with this offering to better understand possible demand for the LROs. These “test-the-waters” materials may include information relating to our Company, this offering, the past performance of our loan transactions, articles and publications concerning small business lending, or public advertisements and audio-visual materials, in each case only as authorized by us. All such materials will contain disclaimers required by, and be disseminated in a fashion permitted by, Regulation A. Although these materials will not contain information in conflict with the information provided by this offering circular and will be prepared with a view to presenting a balanced discussion of risk and reward with respect to our LROs, these materials will not give a complete understanding of this offering, us or our LROs and are not to be considered part of this offering circular. This offering is made only by means of this offering circular and prospective investors must read and rely on the information provided in this offering circular in connection with their decision to invest in our LROs. To be clear, all investors will be furnished with a copy of a current offering circular before or at the time of all written offers.

USE OF PROCEEDS

Generally, we, Groundfloor Finance, or a subsidiary of Groundfloor Finance, will advance Loans prior to the qualification or sale of corresponding series of LROs. If we subsequently qualify and fully subscribe a series of LROs that corresponds to an advanced loan, a portion of the proceeds will be used to repay the advanced amount. If the Loan has not been advanced, we will use the proceeds of the sale of the corresponding series of LROs to originate the Loan and will close and fund the corresponding Loan on the original issue date of the LROs.

The table below lists the Projects covered by this Offering Circular for which we are offering separate series of LROs. Each series of LROs is denominated by the corresponding Project's name.

Series of LROs/Project	Aggregate Purchase Amount/Loan Principal	
1257 East 169 th St., S. Holland, IL 60473	\$	150,950
140 Holly Road NW, Atlanta, GA 30314	\$	166,580
Total	\$	317, 530

Groundfloor Finance (or its agents) will administer, service, collect and enforce each Loan. Upon completion of the offering of a particular series of LROs by GRE 1, the Loan Proceeds of the corresponding Loan not advanced to Borrowers remain in the GRE 1 Borrower FBO Account until disbursed pursuant to the terms of the underlying Loan Agreement. We do not earn interest on the amounts held in the GRE 1 Borrower FBO accounts that are not distributed to Borrowers. We typically disburse amounts to the Borrower from time to time as Draws in accordance with the budget and/or Draw schedule outlined in the underlying Loan Agreement.

Other than any fees and expenses owed to us by the Borrower at closing (to the extent such fees and expenses have been included in the Loan Principal), we will not use the proceeds of the offering of a series of LROs for any purpose other than to fund the corresponding Loan (including fees capitalized into the Loan and retained by us as described in “Description of the Business of GRE 1 and of Groundfloor Finance—Fees and Related Expenses” above), unless the Loan was subject to an advance as outlined above.

FEDERAL TAX ASPECTS

The following discussion sets forth the material U.S. federal income tax considerations generally applicable to purchasers of the LROs. This discussion is based on the Internal Revenue Code, Treasury regulations promulgated thereunder (“Treasury Regulations”), administrative pronouncements of the U.S. Internal Revenue Service (“IRS”) and judicial decisions, all as currently in effect and all of which are subject to change and to different interpretations. Changes to any of the foregoing authorities could apply on a retroactive basis and could affect the U.S. federal income tax consequences described below.

This discussion does not address all of the U.S. federal income tax considerations that may be relevant to a particular LRO holder's circumstances and does not discuss any aspect of U.S. federal tax law other than income taxation or any state, local or non-U.S. tax consequences of the purchase, ownership and disposition of the LROs. This discussion applies only to investors who hold the LROs as capital assets within the meaning of the Internal Revenue Code (generally, property held for investment). This discussion does not address U.S. federal income tax considerations applicable to LRO holders that may be subject to special tax rules, such as:

- securities dealers or brokers, or traders in securities electing mark-to-market treatment;
- banks, thrifts or other financial institutions;
- insurance companies;
- regulated investment companies or real estate investment trusts;
- tax-exempt organizations;
- persons holding LROs as part of a “straddle,” “hedge,” “synthetic security” or “conversion transaction” for U.S. federal income tax purposes, or as part of some other integrated investment;
- partnerships or other pass-through entities;
- persons subject to the alternative minimum tax;
- certain former citizens or residents of the United States;
- non-U.S. Holders (as defined below); and
- “U.S. Holders” (as defined below) whose functional currency is not the U.S. dollar.

As used herein, a “U.S. Holder” is a beneficial owner of LROs that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation (or any other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate whose income is subject to U.S. federal income tax regardless of its source, or (iv) a trust if (a) a United States court has the authority to exercise primary supervision over the administration of the trust and one or more U.S. persons (as defined under the Internal Revenue Code) are authorized to control all substantial decisions of the trust or (b) it has a valid election in place to be treated as a U.S. person. A “Non-U.S. Holder” is any beneficial owner of a LRO that, for U.S. federal income tax purposes, is not a U.S. Holder and that is not a partnership (or other entity treated as a partnership for U.S. federal income tax purposes).

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds LROs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. A partnership holding LROs, and partners in such a partnership, should consult their own tax advisors with regard to the U.S. federal income tax consequences of the purchase, ownership and disposition of the LROs by the partnership.

THIS DISCUSSION OF THE MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE LROS IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSTRUED TO BE, LEGAL OR TAX ADVICE TO ANY PARTICULAR PERSON. ACCORDINGLY, ALL PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE LROS BASED ON THEIR PARTICULAR CIRCUMSTANCES.

Taxation of the LROs in General

There are no statutory provisions, regulations, published rulings, or judicial decisions that directly address the characterization of the LROs or instruments similar to the LROs for U.S. federal income tax purposes. However, although the matter is not free from doubt, we intend to treat the LROs as our or Groundfloor Finance’s debt instruments that have original issue discount (“OID”) for U.S. federal income tax purposes. Where required, we or Groundfloor Finance intend to file information returns with the IRS in accordance with such treatment unless there is a change or clarification in the law, by regulation or otherwise, that would require a different characterization of the LROs.

You should be aware, however, that the IRS is not bound by our characterization of the LROs, and the IRS or a court may take a different position with respect to the LROs' proper characterization. For example, the IRS could determine that, in substance, each LRO holder owns a proportionate interest in the corresponding Loan for U.S. federal income tax purposes or, for example, the IRS could instead treat the LROs as a different financial instrument (including an equity interest or a derivative financial instrument). Any different characterization could significantly affect the amount, timing, and character of income, gain or loss recognized in respect of a LRO. For example, if the LROs are treated as our or Groundfloor Finance's equity, (i) we or Groundfloor Finance would be subject to U.S. federal income tax on income, including interest, accrued on the corresponding Loan but would not be entitled to deduct interest or OID on the LROs, and (ii) payments on the LROs would be treated by the holder for U.S. federal income tax purposes as dividends (that may be ineligible for reduced rates of U.S. federal income taxation or the dividends-received deduction) to the extent of our or Groundfloor Finance's earnings and profits as computed for U.S. federal income tax purposes.

A different characterization may significantly reduce the amount available to pay on the LROs. You are strongly advised to consult your own tax advisor regarding the U.S. federal, state, local and non-U.S. tax consequences of the purchase, ownership, and disposition of the LROs (including any possible differing treatments of the LROs).

The following discussion assumes that the LROs will be treated as our or Groundfloor Finance's debt instruments that have OID for U.S. federal income tax purposes. Unless otherwise specified, the following discussion assumes that the LROs will not be subject to the rules governing contingent payment debt instruments.

Taxation of Payments on the LROs

Unless you are holding the LROs in a tax deferred account, such as an IRA, you will generally be required to accrue OID income as ordinary interest income for U.S. federal income tax purposes, regardless of your regular method of tax accounting. If you hold a LRO with a final payment date that is more than one year after original issue date of the LRO, you will be required to accrue OID income as ordinary interest income under a "constant yield method." Under this treatment, if a payment on a LRO is not made in accordance with the payment schedule in respect of the corresponding Loan (for example, because of a late payment on the corresponding Loan), you will be required to include an amount of OID in taxable income as interest even if you have not received the actual payment from the corresponding Loan.

The Treasury Regulations governing OID provide special rules for determining the amount and accrual of OID for debt instruments that provide for one or more alternative payment schedules applicable upon the occurrence of contingencies. If the timing and amounts of the payments that comprise each payment schedule are known as of the issue date and, based on all the facts and circumstances as of the issue date, a single payment schedule for a debt instrument, including the stated payment schedule, is significantly more likely than not to occur, the amount and accrual of OID is determined based on that payment schedule. In addition, under the applicable Treasury Regulations, remote and/or incidental contingencies may generally be ignored. A contingency relating to the amount of a payment is incidental if, under all reasonably expected market conditions, the potential amount of the payment is insignificant relative to the total expected amount of the remaining payments on the debt instrument. A contingency relating to the timing of a payment is incidental if, under all reasonably expected market conditions, the potential difference in the timing of the payment is insignificant.

The LROs provide for one or more alternative payment schedules because we are obligated to make payments on a LRO only to the extent that we receive payments on the corresponding Loan. The payment schedule for each LRO provides for payments of principal and interest on the LRO in accordance with the payment schedule for the corresponding Loan. In addition to scheduled payments, we will prepay a LRO to the extent that a Borrower prepays the Loan corresponding to the LRO, and we will pay late fees (if any) collected on a corresponding Loan to the holders of the corresponding LRO. Notwithstanding such contingencies, we intend to use the payment schedule of a LRO to determine the amount and accrual of OID on the LRO because we believe that a LRO is significantly more likely than not to be paid in accordance with such payment schedule and/or the likelihood of nonpayment, prepayment or late payment on the Loan corresponding to such LRO will be remote or incidental. If in the future we determine that the previous sentence does not apply to a LRO, we anticipate that we will be required to determine the amount and accrual of OID for such LRO pursuant to the rules applicable to contingent payment debt instruments, which are described below, and we shall so notify you.

OID on a LRO will equal the excess of the LRO's "stated redemption price at maturity" over its "issue price." The stated redemption price at maturity of a LRO includes all payments of the Purchase Amount and Accrued Return earned on the LRO under the payment schedule of the LRO. The issue price of a LRO will generally equal the Purchase Amount of a LRO.

The amount of OID includible in income for a taxable year is the sum of the "daily portions" of OID with respect to the LRO for each day during the taxable year in which the holder held the LRO. The daily portion of OID is determined by allocating to each day of any accrual period within a taxable year a pro rata portion of an amount equal to the product of such LRO's adjusted issue price at the beginning of the accrual period and its yield to maturity (properly adjusted for the length of the period). We intend to use 30-day accrual periods. The adjusted issue price of a LRO at the beginning of any accrual period should be its issue price, increased by the aggregate amount of OID previously accrued with respect to the LRO and decreased by any payments of Purchase Amount and Accrued Return previously made on the LRO. A LRO's yield to maturity should be the discount rate that, when used to compute the present value of all payments of the Purchase Amount and Accrued Return to be made on the LRO under the payment schedule of the LRO, produces an amount equal to the issue price of such LRO.

Cash payments of the Purchase Amount and Accrued Return under the payment schedule on the LROs will not be separately included in income, but rather will be treated first as payments of previously accrued but unpaid OID and then as payments of Purchase Amount.

Sale, Retirement or Other Taxable Disposition of LROs

Upon the sale, retirement or other taxable disposition of a LRO, you generally will recognize gain or loss equal to the difference, if any, between the amount realized upon the sale, retirement or other taxable disposition and your adjusted tax basis in the LRO. In general, your adjusted tax basis in the LRO will equal your cost for the LRO, increased by any OID and market discount previously included in gross income by you, as discussed below, and reduced by any payments previously received by you in respect of the LRO.

Except as discussed below with respect to a LRO subject to rules governing market discount or contingent payment debt instruments, your gain or loss on the taxable disposition of the LRO generally will be long-term capital gain or loss if the LRO has been held for more than one year and short term otherwise. The deductibility of capital losses is subject to limitations.

Prepayments

If we prepay a LRO in full, the LRO will be treated as retired, and, as described above, you will generally have gain or loss equal to the difference, if any, between the amounts realized upon the retirement and your adjusted tax basis in the LRO. If we prepay a LRO in part, a portion of the LRO will be treated as retired. Generally, for purposes of determining (i) your gain or loss attributable to the portion of the LRO retired and (ii) your OID accruals on the portion of the LRO remaining outstanding, the adjusted issue price, your adjusted tax basis, and the accrued but unpaid OID of the LRO, determined immediately before the prepayment, will be allocated between the two portions of the LRO based on the portion of the LRO that is treated as retired. The yield to maturity of a LRO is not affected by a partial prepayment.

Late Payments

As discussed above, an amount equal to any late charges collected on the Loan corresponding to your LRO will generally be paid to you. In such case, any amounts equal to late charges paid to you should be taxable as ordinary income at the time such amounts are paid or accrued in accordance with your regular method of accounting for U.S. federal income tax purposes.

Nonpayment of Loan Corresponding to LRO – Automatic Extension

In the event that we do not make scheduled payments on a LRO as a result of nonpayment by the Borrower on the corresponding Loan, you must continue to accrue and include OID on a LRO in taxable income until the termination of the LROs. Solely for purposes of the OID rules, the LRO may be treated as retired and reissued on the scheduled payment date for an amount equal to the LRO's adjusted issue price on that date. As a result of such reissuance, the amount and accrual of OID on the LRO may change. At the time of the deemed reissuance, due to nonpayment by the Borrower, we may not be able to conclude that it is significantly more likely than not that the LRO will be paid in accordance with one payment schedule and/or that the likelihood of future nonpayment, prepayment, or late payment by the Borrower on the Loan corresponding to such LRO will be remote or incidental. Accordingly, the LRO may become subject to the contingent payment debt instrument rules (which are discussed in more detail below). In addition, in the event that the term of a LRO is extended past the corresponding Loan's original maturity date because amounts remain due and payable by the Borrower on the Loan corresponding to the LRO, the LRO likely will be treated as reissued and become subject to the contingent payment debt instrument rules. If we determine that a LRO is subject to the contingent payment debt instrument rules as a result of such a reissuance, we will notify you and provide the projected payment schedule and comparable yield.

If collection on a LRO becomes doubtful, you may be able to stop accruing OID on the LRO. Under current IRS guidance, it is not clear whether you may stop accruing OID if scheduled payments on a LRO are not made. You should consult your own tax advisor regarding the accrual and inclusion of OID in income when collection on a LRO becomes doubtful.

Losses as a Result of Worthlessness

In the event that a LRO becomes wholly worthless, if you are an individual and you did not acquire the LRO as part of your trade or business, you should generally be entitled to deduct your loss on the LRO as a short-term capital loss in the taxable year the LRO becomes wholly worthless. The portion of your loss attributable to accrued but unpaid OID may be deductible as an ordinary loss, although such treatment is not entirely free from doubt. Under Section 166 of the Code, if you are a corporation, or if you are an individual and you acquired your LRO as part of a trade or business, you should generally be entitled to deduct any loss sustained during the taxable year on account of a LRO becoming wholly or partially worthless as an ordinary loss. You should consult your own tax advisor regarding the character and timing of losses attributable to LROs that become worthless in whole or in part.

Potential Characterization as Contingent Payment Debt Instruments

Although we believe our intended treatment of a LRO as our (or Groundfloor Finance's) debt instrument that is not subject to the contingent payment debt instrument rules is reasonable, our position is not binding on the IRS or the courts, and we cannot predict what the IRS or a court would ultimately decide with respect to the proper U.S. federal income tax treatment of the LROs. Accordingly, there exists a risk that the IRS or a court could determine that the LROs are "contingent payment debt instruments" because payments on the LROs are linked to performance on the corresponding Loan. If the LROs are characterized as contingent payment debt instruments, or, in the future, if we conclude that a LRO is subject to the contingent payment debt instrument rules, the LROs would be subject to special rules applicable to contingent payment debt instruments. If these rules were to apply, you would generally be required to accrue interest income under the noncontingent bond method. Under this method, interest would be taken into account whether or not the amount of any payment was fixed or determinable in the taxable year. The amount of interest that would be taken into account would generally be determined based on a hypothetical noncontingent bond, which is based on a "comparable yield" (generally, a hypothetical yield to be applied to determine interest accruals with respect to the LRO, and which can be no less than the applicable federal rate) and a "projected payment schedule" (generally, a series of projected payments, the amount and timing of which would produce a yield to maturity on that LRO equal to the comparable yield). Based on the comparable yield and the projected payment schedule, you will generally be required to accrue as OID the sum of the daily portions of interest for each day in the taxable year that you held the LRO, adjusted to reflect the difference, if any, between the actual and projected amount of any contingent payments on the LRO. The daily portions of interest are determined by allocating to each day in an accrual period the ratable portion of interest that accrues in such accrual period. The amount of interest you may accrue under this method could be higher or lower than the stated interest rate on the Loan corresponding to your LROs. In addition, any gain recognized on the sale, exchange or retirement of your LRO will generally be treated as ordinary interest income, and any loss will be treated as ordinary loss to the extent of prior OID inclusions, and then as capital loss thereafter.

Short-Term LRO

The following discussion applies to LROs in which the LRO's final payment date is one year or less from the LRO's date of issue ("Short-Term LROs"). There are special rules that address the U.S. federal income taxation of Short-Term LROs of which you should be aware. These rules are not entirely clear in all situations. Accordingly, you are strongly advised to consult your own tax advisor with regard to the U.S. federal income tax consequences of the purchase, ownership and disposition of Short-Term LROs.

In general, the Treasury Regulations provide that, in the case of a debt instrument with a maturity of one year or less, no payments of interest are considered qualified stated interest. This means that a Short-Term LRO is treated as having OID equal to the excess of the total payments on the obligation over its issue price. In general, if you are a cash method taxpayer, you should not be required to recognize interest income until actual or constructive receipt of payment, unless you elect to accrue OID in income on a current basis under either a straight-line or a constant yield method. If you do not elect to currently include accrued OID in income, you will not be allowed to deduct any of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry the LRO (in an amount not exceeding the deferred income), and instead you will be required to defer deductions for such interest until the deferred income is realized upon the termination of the LRO or its earlier disposition in a taxable transaction. Notwithstanding the foregoing, if you elect to include accrued OID in income on a current basis, the limitation on the deductibility of interest will not apply. Upon disposition of a Short-Term LRO, you will be required to characterize some or all of the gain realized on a sale, exchange or retirement of the LRO as ordinary income. The amount characterized as ordinary income upon such disposition will generally equal an amount of OID that would have accrued under a straight-line basis or, if you so elect, an amount of OID that would have accrued under a constant yield method. If you are an accrual method taxpayer, you will generally be required to accrue OID in income on a current basis on either a straight-line basis or, at your election, under the constant yield method based on daily compounding. In addition, while there are special rules that address the U.S. federal income taxation of notes that have a maturity of more than one year and that provide for one or more contingent payments, those rules generally do not apply to short-term obligations. Accordingly, the U.S. federal income taxation of short-term obligations that provide for contingent payments is not entirely clear. You should consult your own tax advisor regarding the U.S. federal income tax consequences if Short-Term LROs are considered short-term obligations that provide for U.S. contingent payments.

Backup Withholding and Reporting

We or Groundfloor Finance will be required to report information to the IRS on certain payments on the LROs (including interest and discount) and on proceeds of the sale of the LROs if you are not an exempt recipient (such as a corporation). In addition, backup withholding (currently at a 28% rate) may apply to payments made to you if (i) you do not furnish or you have failed to provide your correct taxpayer identification number, (ii) we or Groundfloor Finance have been instructed by the IRS to backup withhold because of under-reporting (generally meaning that the IRS has determined and notified you that you have failed to report any reportable dividend and interest payments required to be shown on a tax return for a taxable year), or (iii) in certain circumstances, you have failed to comply with applicable certification requirements or otherwise establish an exemption from backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided that the required information is furnished to the IRS on a timely basis. You should consult your tax advisor regarding the application of information reporting and backup withholding rules in your particular situation, the availability of an exemption, and the procedure for obtaining such an exemption, if applicable.

LEGAL MATTERS

Groundfloor Finance and GRE 1 have been advised regarding legal matters concerning this offering by Manatt, Phelps & Phillips, LLP, New York, New York. Groundfloor Finance and GRE 1 have received an opinion from Robbins Ross Alloy Belinfante Littlefield LLC, Atlanta, Georgia regarding the validity of the LROs to be offered pursuant to Georgia law.

EXPERTS

No experts were employed on a contingent basis or otherwise, nor have they any material interest in the issuer or any of its affiliated companies, their members or their agents.

PART III — EXHIBITS

<u>Exhibit Number</u>	<u>Exhibit Description (hyperlink)</u>	<u>Filed Herewith</u>	<u>Form</u>	<u>File No</u>	<u>Exhibit</u>	<u>Filing Date</u>
2.1	GRE 1 Articles of Organization		1-A/A	024-10671	2.1	January 25, 2017
2.2	GRE 1 Operating Agreement		1-A/A	024-10671	2.2	January 25, 2017
2.3	Groundfloor Finance Inc. Second Amended and Restated Articles of Incorporation		1-A/A	024-10496	2.1	November 25, 2015
2.4	Groundfloor Finance Inc. Bylaws		1-A/A	024-10440	2.2	July 1, 2015
3.1	Form of Investor Agreement	X				
3.2	Amended and Restated Investors' Rights Agreement		1-A/A	024-10496	3.1	November 25, 2015
3.3	Form of Preferred Stock Voting Agreement		1-A/A		3.2	February 7, 2018
3.4	Common Stock Voting Agreement		1-A/A		3.3	February 7, 2018
3.5	Common Stock Subscription Agreement		1-A/A		3.4	February 7, 2018
4.1	Standard Form of LRO Agreement	X				
6.1	Form of Loan Agreement	X				
6.2	Form of Promissory Note	X				
6.3	Executive Employment Agreement with Brian Dally dated November 19, 2014		1-A/A	024-10440	6.1	July 1, 2015
6.4	Executive Employment Agreement with Nikhil Bhargava dated November 19, 2014		1-A/A	024-10440	6.2	July 1, 2015
6.5	2013 Stock Option Plan		1-A/A	024-10440	6.6	July 1, 2015
6.6	Option Award Agreement for Michael Olander Jr.		1-A/A	024-10440	6.8	July 1, 2015
6.7	Option Award Agreement for Richard Tuley		1-A	024-10488	6.11	October 7, 2015
6.8	Option Award Agreement for Bruce Boehm		1-A	024-10488	6.12	October 7, 2015
6.9	Series Seed Preferred Stock Purchase Agreement		1-A/A	024-10440	3.1	July 1, 2015
6.10	Series A Preferred Stock Purchase Agreement		1-A/A	024-10496	6.18	November 25, 2015
6.11	Right of First Refusal and Co-Sale Agreement		1-A/A	024-10496	6.19	November 25, 2015
6.12	Promissory Note and Security Agreement, as amended		1-A POS	024-10496	6.10	October 18, 2017
6.13	Loan Purchase Agreement with Harvest Residential Loan Acquisition, LLC		1-A POS	024-10758	6.11	February 7, 2018
6.14	Servicing Agreement with Harvest Residential Loan Acquisition, LLC		1-A POS	024-10758	6.12	February 7, 2018
10.1	Power of attorney (GRE 1)	X				
10.2	Power of attorney (Groundfloor Finance)		1-A	024-10758	10.1	October 30, 2017
11.1	Consent of Cherry Bekaert LLP		1-A	024-11094	11.1	November 4, 2019
11.2	Consent of Robbins Ross Alloy Belinfante Littlefield LLC (included as part of Exhibit 12.1)		1-A	024-11094	11.2	October 7, 2019
11.3	Consent of Hughes Pittman & Gupton, LLP	X				
12.1	Opinion of Robbins Ross Alloy Belinfante Littlefield LLC		1-A	024-11094	12.1	October 7, 2019

SIGNATURES

Pursuant to the requirements of Regulation A, the issuer certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form 1-A and has duly caused this Offering Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on November 15, 2019.

Groundfloor Real Estate 1, LLC

By: Groundfloor Finance Inc., its manager

By: /s/ Nick Bhargava

Name: Nick Bhargava

Title: Executive Vice President, Secretary, and Acting Chief Financial Officer

This offering statement has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Brian Dally</u> Brian Dally	President, Chief Executive Officer of Groundfloor Finance Inc. (Principal Executive Officer)	November 15, 2019
<u>/s/ Nick Bhargava</u> Nick Bhargava	Executive Vice President, Secretary, and Acting Chief Financial Officer of Groundfloor Finance Inc. (Principal Financial Officer and Principal Accounting Officer)	November 15, 2019

*By: /s/ Nick Bhargava

Nick Bhargava
Attorney-in-fact

Pursuant to the requirements of Regulation A, the issuer certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form 1-A and has duly caused this Offering Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on November 15, 2019.

Groundfloor Finance, Inc.

By: /s/ Nick Bhargava

Name: Nick Bhargava

Title: Executive Vice President, Secretary, and Acting Chief Financial Officer

This offering statement has been signed by the following persons, in the capacities, and on the dates indicated.

<u>Name and Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Brian Dally</u> Brian Dally	President, Chief Executive Officer of Groundfloor Finance Inc. (Principal Executive Officer)	November 15, 2019
<u>/s/ Nick Bhargava</u> Nick Bhargava	Executive Vice President, Secretary, and Acting Chief Financial Officer of Groundfloor Finance Inc. (Principal Financial Officer and Principal Accounting Officer)	November 15, 2019
<u>*</u>	Director	November 15, 2019
<u>Sergei Kouzmine</u>	Director	November 15, 2019
<u>*</u>	Director	November 15, 2019
<u>Bruce Boehm</u>	Director	November 15, 2019
<u>*</u>	Director	November 15, 2019
<u>Michael Olander Jr.</u>	Director	November 15, 2019
<u>*</u>	Director	November 15, 2019
<u>Richard Tuley Jr.</u>	Director	November 15, 2019

* By: /s/ Nick Bhargava

Attorney-in-fact

GROUND FLOOR REAL ESTATE 1, LLC

Condensed Financial Statements

June 30, 2019 and 2018

GROUND FLOOR REAL ESTATE 1, LLC

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GROUND FLOOR REAL ESTATE 1, LLC

Condensed Balance Sheets

	Unaudited June 30, 2019	Audited December 31, 2018
Assets		
Current assets:		
Cash	\$ 20,100	\$ 20,100
Loans to developers, net	157,070	157,070
Interest receivable on loans to developers	9,903	9,903
Other real estate owned	23,569	23,569
Total current assets	<u>210,642</u>	<u>210,642</u>
Total assets	<u>\$ 210,642</u>	<u>\$ 210,642</u>
Liabilities and Member's Equity		
Current liabilities:		
Accounts payable	\$ -	\$ -
Related party payable	-	-
Accrued interest on limited recourse obligations	9,903	9,903
Limited recourse obligations, net	200,739	200,739
Total current liabilities	<u>210,642</u>	<u>210,642</u>
Total liabilities	<u>210,642</u>	<u>210,642</u>
Member's equity:		
Member's capital	100	100
Member's contribution receivable	(100)	(100)
Retained earnings	-	-
Total member's equity	<u>-</u>	<u>-</u>
Total liabilities and member's equity	<u>\$ 210,642</u>	<u>\$ 210,642</u>

See accompanying notes to condensed financial statements

GROUND FLOOR REAL ESTATE 1, LLC

Condensed Statements of Operations

	Unaudited	
	Six Months Ended June 30,	
	2019	2018
Loan servicing revenue	\$ -	\$ 5,200
Net interest income:		
Interest income	-	95,899
Interest expense	-	(95,899)
Net interest income	-	-
Net revenue	-	5,200
Cost of revenue	-	3,250
Gross profit	-	1,950
Operating expenses:		
General and administrative	-	1,950
Total operating expenses	-	1,950
Income from operations	-	-
Net income	\$ -	\$ -

See accompanying notes to condensed financial statements

GROUND FLOOR REAL ESTATE 1, LLC

Condensed Statements of Member's (Deficit) Equity

	Member's Capital	Member's Contribution Receivable	(Accumulated deficit) Retained Earnings	Total Member's (Deficit) Equity
Member's deficit as of December 31, 2017 (audited)	\$ 100	\$ (100)	\$ -	\$ -
Member contributions	-	-	-	-
Net income	-	-	-	-
Member's equity as of December 31, 2018 (audited)	<u>\$ 100</u>	<u>\$ (100)</u>	<u>\$ -</u>	<u>\$ -</u>
Net income	-	-	-	-
Member's equity as of June 30, 2019 (unaudited)	<u><u>\$ 100</u></u>	<u><u>\$ (100)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying notes to condensed financial statements

GROUND FLOOR REAL ESTATE 1, LLC

Condensed Statements of Cash Flows

	Unaudited	
	Six Months Ended June 30,	
	2019	2018
Cash flows from operating activities		
Net income	\$ -	\$ -
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Interest receivable on loans to developers	-	(95,899)
Accounts payable and related party payable	-	-
Accrued interest on limited recourse obligations	-	95,899
Net cash provided by operating activities	<u>-</u>	<u>-</u>
Cash flows from investing activities		
Loan payments to developers	-	(299,644)
Repayments of loans from developers	-	1,969,453
Net cash provided by (used in) investing activities	<u>-</u>	<u>1,669,809</u>
Cash flows from financing activities		
Proceeds from limited recourse obligations	-	-
Repayments of limited recourse obligations	-	(2,001,109)
Issuance of membership interest	-	-
Net cash (used in) provided by financing activities	<u>-</u>	<u>(2,001,109)</u>
Net (decrease) increase in cash	-	(331,300)
Cash as of beginning of the period	20,100	389,400
Cash as of end of the period	<u>\$ 20,100</u>	<u>\$ 58,100</u>
Supplemental disclosure of noncash investing and financing activities:		
Loans to developers transferred to other real estate owned	\$ -	\$ 23,569
Write-down of loans to developers and limited recourse obligations, net	-	35,054
Write-down of interest receivable on loans to developers and accrued interest on limited recourse obligations	-	4,706

See accompanying notes to condensed financial statements

GROUNDFLOOR REAL ESTATE 1, LLC

Notes to Condensed Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of Presentation**

GROUNDFLOOR Real Estate 1, LLC (the “Company”), a Georgia limited liability company formed on December 16, 2016. The Company is a wholly-owned subsidiary of GROUNDFLOOR Finance Inc. (“GROUNDFLOOR”), a Georgia corporation.

Description of Business

GROUNDFLOOR has developed an online investment platform designed to crowdsource financing for real estate development projects, which GROUNDFLOOR utilizes to provide investment opportunities to investors. With this online investment platform, investors are able to choose between multiple real estate development investment opportunities, and developers of the projects are able to obtain financing. GROUNDFLOOR believes this method of financing real estate has many advantages including reduced project origination and financing costs, lower interest rates for real estate development financing, and attractive returns for investors. GROUNDFLOOR will identify which loans it seeks to originate, and will sell limited recourse obligations (“LROs”) which correspond to those loans. GROUNDFLOOR’s primary business is the sale of LROs and the Company’s primary purpose is the servicing of loans which correspond to those LROs.

Basis of Accounting and Liquidity

The Company’s condensed financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities and commitments in the normal course of business.

Operations since inception have consisted primarily of organizing the Company. The accompanying condensed financial statements have been prepared on a basis which assumes that the Company will continue as a going concern. The Company has earned limited revenue since its inception. The ultimate success of the Company is dependent on management’s ability to develop and market its products and services at levels sufficient to generate operating revenues in excess of expenses. Management evaluated the condition of the Company and has determined that until such sales levels can be achieved, management will need to secure additional capital to continue to fund product development and sales and marketing.

Management intends to fund operations by capital obtained from GROUNDFLOOR. However, there are no assurances that the Company can be successful in obtaining the additional capital or such financing will be on terms favorable or acceptable to the Company or GROUNDFLOOR. These matters raise substantial doubt about the ability of the Company to continue as a going concern.

The condensed financial statements do not include any adjustments that might result from the outcome of uncertainties described in the condensed financial statements. In addition, the condensed financial statements do not include any adjustments relating to the recoverability and classification of assets nor the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

Use of Estimates

The preparation of Condensed 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 and disclosure of contingent assets and liabilities at the date of the Condensed Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenue primarily results from fees earned on the loans to the Developers (the “Loans”). Fees include “Loan servicing revenue” which are paid by the Developers.

GROUND FLOOR REAL ESTATE 1, LLC

Notes to Condensed Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Loan Servicing Revenue**

The loan servicing revenue is recognized by the Company, upon recovery, for costs incurred in servicing the Developer's Loan, including managing payments to and from Developers and payments to Investors. The Company records loan servicing revenue as a component of revenue when collected.

Interest Income on Loans to Developers and Interest Expense on Limited Recourse Obligations

The Company recognizes "Interest income" on Loans and "Interest expense" on the corresponding LROs (if issued by GROUND FLOOR Real Estate 1, LLC) using the accrual method based on the stated interest rate to the extent the Company believes it to be collectable. For the purposes of these Condensed Financial Statements, "Limited recourse obligations, net" refers to LROs. LROs are the Company's currently registered securities.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company had no cash equivalents as of December 31, 2018 and 2017. From time to time, the Company could maintain cash deposits in excess of federally insured limits. The Company believes credit risk related to its cash and cash equivalents to be minimal.

Loans to Developers and Limited Recourse Obligations

"Loans to developers, net" and the corresponding "Limited recourse obligations, net", used to fund the Loans are originally recorded at outstanding principal. The interest rate associated with a Loan is the same as the interest rate associated with the corresponding LROs.

The Company's obligation to pay principal and interest on an LRO is equal to the pro rata portion of the total principal and interest payments collected from the corresponding Loan. The Company obtains a lien against the property being financed and attempts reasonable collection efforts upon the default of a Loan. The Company's lien may be senior or junior to the Borrower's other financing obligations. The Company is not responsible for repaying "Limited recourse obligations, net" associated with uncollectable "Loans to developers, net". Amounts collected related to a Loan default are returned to the Investors based on their pro rata portion of the corresponding LROs, if applicable, less collection costs incurred by the Company.

The Loan and corresponding LROs are recorded on the Company's Condensed Balance Sheets to "Loans to developers, net" and "Limited recourse obligations, net", respectively, once the Loan has closed. Loans are considered closed after the promissory note for that Loan has been signed and the security interest has been perfected.

Nonaccrual and Past Due Loans

"Interest income" is accrued on the outstanding principal balance. The accrual of interest on "Loans to developers, net" and corresponding "Limited recourse obligations, net" is discontinued when, in management's opinion, the borrower may be unable to make payments as they become due, unless the Loan is well secured and in the process of collection. "Interest income" and "Interest expense" on the "Loans to developers, net" and the corresponding "Limited recourse obligations, net" are discontinued and placed on nonaccrual status at the time the Loan is 90 days delinquent unless the Loan is well secured and in process of collection. The "Loans to developers, net" and corresponding "Limited recourse obligations, net" are charged off to the extent principal or interest is deemed uncollectible. Non-accrual Loans and Loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. All interest accrued, but not collected for "Loans to developers, net" and "Limited recourse obligations, net" that are placed on nonaccrual or charged off, is reversed against "Interest income" and the corresponding LROs recorded "Interest expense".

Interest income collected on nonaccrual Loans is applied against principal until the Loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

GROUND FLOOR REAL ESTATE 1, LLC

Notes to Condensed Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Impaired Loans**

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans include Loans on nonaccrual status. When determining if the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Company considers the borrower's capacity to pay, which includes such factors as the borrower's current financial position, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as collateral value and guarantor support. The Company individually assesses for impairment all nonaccrual Loans and all Loans in fundamental default. If a Loan is deemed impaired, a specific valuation allowance is allocated, if necessary, so that the Loan is reported net, at the present value of estimated future cash flows using the Loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis.

Other Real Estate Owned

Foreclosed assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less estimated cost to sell. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Costs of improvements are capitalized up to the fair value of the property, whereas costs relating to holding foreclosed assets and subsequent adjustments to the value are charged to operations.

Income Taxes

As a limited liability company, the Company is not a taxpaying entity for federal income tax purposes. Accordingly, its taxable income or losses are allocated to its member based on the provisions of the operating agreement and are included in the members' income tax returns. The condensed financial statements, therefore, do not include a provision for income taxes. Similar provisions apply for state income tax purposes.

Management has assessed the effect of the guidance provided by U.S. GAAP on accounting for uncertainty in income taxes. Management has evaluated all tax positions that could have a significant effect on the condensed financial statements and determined the Company had no uncertain income tax positions at June 30, 2019 and December 31, 2018.

GROUND FLOOR REAL ESTATE 1, LLC

Notes to Condensed Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Recent Accounting Pronouncements**

The Company has evaluated the recent pronouncements issued since filing its annual audited Condensed Financial Statements for the year-ended December 31, 2018 and believes that none of them will have a material effect on the Company's Condensed Financial Statements.

NOTE 2: LOANS TO DEVELOPERS, NET

The Company purchases notes that provide financing to borrowers for real estate-related loans. Real estate loans include loans for unoccupied single family or multifamily renovations costing between \$20,000 and \$2,000,000 over six months to a year.

The Company uses three performance states to better monitor the credit quality of outstanding loans. Outstanding loans are characterized as follows:

Current - This status indicates that no events of default have occurred, all payment obligations have been met or none are yet triggered.

Workout - This status indicates there has been one or more payment defaults on the Loan and the Company has negotiated a modification of the original terms that does not amount to a fundamental default.

Fundamental Default - This status indicates a Loan has defaulted and there is a chance the Company will not be able to collect 100% of the principal amount of the Loan by the extended payment date of the corresponding LROs. The Company has commenced a formal foreclosure process to secure the real estate property.

GROUND FLOOR uses a proprietary grading algorithm to assign one of seven letter grades, from A to G, to each Loan. The letter grade generally reflects the overall risk of the Loan, with A indicating less risk and G indicating higher risk.

The following table presents the carrying amount of "Loans to developers, net" by letter grade and performance state as of June 30, 2019 and December 31, 2018, respectively:

	<u>Current</u>	<u>Workout</u>	<u>Fundamental Default</u>	<u>Total</u>
Loan grades:				
A	\$ -	\$ -	\$ -	\$ -
B	-	-	-	-
C	-	-	157,070	157,070
D	-	-	-	-
E	-	-	-	-
F	-	-	-	-
G	-	-	-	-
Carrying amount as of June 30, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 157,070</u>	<u>\$ 157,070</u>
	<u>Current</u>	<u>Workout</u>	<u>Fundamental Default</u>	<u>Total</u>
Loan grades:				
A	\$ -	\$ -	\$ -	\$ -
B	-	-	-	-
C	-	-	157,070	157,070
D	-	-	-	-
E	-	-	-	-
F	-	-	-	-
G	-	-	-	-
Carrying amount as of December 31, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 157,070</u>	<u>\$ 157,070</u>

GROUND FLOOR REAL ESTATE 1, LLC

Notes to Condensed Financial Statements

NOTE 2: LOANS TO DEVELOPERS, NET (continued)**Nonaccrual and Past Due Loans**

A Loan is placed on nonaccrual status when, in management's judgment, the collection of the interest income appears doubtful. "Interest receivable on loans to developers" that has been accrued and is subsequently determined to have doubtful collectability is charged to "Interest income" and the corresponding "Accrued interest on limited recourse obligations" that has been accrued and is subsequently determined to have doubtful collectability is charged to "Interest expense". Interest income on Loans that are classified as nonaccrual is subsequently applied to principal until the Loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Past due Loans are loans whose principal or interest is past due 30 days or more. As of June 30, 2019, the Company placed Loans of \$157,070 recorded to "Loans to developers, net" on nonaccrual status.

The following table presents an analysis of past due Loans as of June 30, 2019 and December 31, 2018:

	<u>Carrying Amount</u>	<u>Allowance for Loan Losses</u>	<u>Total</u>
Aging schedule:			
Current	\$ -	\$ -	\$ -
Less than 90 days past due	-	-	-
More than 90 days past due	157,070	-	157,070
Total as of June 30, 2019	<u>\$ 157,070</u>	<u>\$ -</u>	<u>\$ 157,070</u>
	<u>Carrying Amount</u>	<u>Allowance for Loan Losses</u>	<u>Total</u>
Aging schedule:			
Current	\$ -	\$ -	\$ -
Less than 90 days past due	-	-	-
More than 90 days past due	157,070	-	157,070
Total as of December 31, 2018	<u>\$ 157,070</u>	<u>\$ -</u>	<u>\$ 157,070</u>

Impaired Loans

The following is a summary of information pertaining to impaired loans as of June 30, 2019:

	<u>Balance</u>
Nonaccrual loans	\$ 157,070
Fundamental default not included above	-
Total impaired loans	<u>157,070</u>
Interest income recognized on impaired loans	<u>\$ 9,903</u>

The following table presents an analysis of information pertaining to impaired loans as of June 30, 2019:

	<u>Balance</u>
Principal loan balance	\$ 157,070
Recorded investment with no allowance	157,070
Recorded investment with allowance	-
Total recorded investment	<u>\$ 157,070</u>
Related allowance	-
Average recorded investment	\$ 157,070

GROUND FLOOR REAL ESTATE 1, LLC

Notes to Condensed Financial Statements

NOTE 2: LOANS TO DEVELOPERS, NET (continued)

The following is a summary of information pertaining to impaired loans as of December 31, 2018:

	Balance
Nonaccrual loans	\$ 157,070
Fundamental default not included above	-
Total impaired loans	<u>157,070</u>
Interest income recognized on impaired loans	<u>\$ 9,903</u>

The following table presents an analysis of information pertaining to impaired loans as of December 31, 2018:

	Balance
Principal loan balance	\$ 157,070
Recorded investment with no allowance	157,070
Recorded investment with allowance	-
Total recorded investment	<u>\$ 157,070</u>
Related allowance	-
Average recorded investment	\$ 157,070

GROUND FLOOR REAL ESTATE 1, LLC

Notes to Condensed Financial Statements

NOTE 2: LOANS TO DEVELOPERS, NET (continued)**Credit Quality Monitoring**

The following table presents “Loans to developers, net” by performance state as of June 30, 2019 and December 31, 2018:

	<u>Carrying Amount</u>	<u>Allowance for Loan Losses</u>	<u>Loans to Developers, Net</u>
Performance states:			
Current	\$ -	\$ -	\$ -
Workout	-	-	-
Fundamental default	157,070	-	157,070
Total as of June 30, 2019	<u>\$ 157,070</u>	<u>\$ -</u>	<u>\$ 157,070</u>
	<u>Carrying Amount</u>	<u>Allowance for Loan Losses</u>	<u>Loans to Developers, Net</u>
Performance states:			
Current	\$ -	\$ -	\$ -
Workout	-	-	-
Fundamental default	157,070	-	157,070
Total as of December 31, 2018	<u>\$ 157,070</u>	<u>\$ -</u>	<u>\$ 157,070</u>

GROUNDFLOOR REAL ESTATE 1, LLC

Notes to Condensed Financial Statements

NOTE 3: OTHER REAL ESTATE OWNED

“Other real estate owned” in the Company’s Condensed Balance Sheet was \$23,569 at June 30, 2019 and December 31, 2018.

NOTE 4: RELATED PARTY ARRANGEMENTS**GROUNDFLOOR Finance Inc.**

GROUNDFLOOR will receive fees and compensation in connection with the Company’s Offering, and the servicing and sale of the Company’s LROs.

The Company will also reimburse GROUNDFLOOR for actual expenses incurred on behalf of the Company in connection with the servicing of a Loan, to the extent not reimbursed by the borrower. The Company will reimburse GROUNDFLOOR for out-of-pocket expenses paid to third parties in connection with providing services to the Company. This does not include GROUNDFLOOR’s overhead, employee costs borne by GROUNDFLOOR, utilities or technology costs. For the six months ended June 30, 2019 and 2018, GROUNDFLOOR incurred \$0 and \$5,100 of costs on the Company’s behalf, respectively. No such costs were due and payable to GROUNDFLOOR as of June 30, 2019 and December 31, 2018, respectively.

GROUNDFLOOR GA Holdings LLC

GROUNDFLOOR GA Holdings LLC may close and fund a Loan prior to it being acquired by the Company. The ability to warehouse Loans allows us the flexibility to deploy the offering proceeds as funds are raised. The Company then will acquire such LROs at a price equal to the fair market value of the Loan (including reimbursements for servicing fees and accrued interest, if any), so there is no mark-up (or mark-down) at the time of purchase.

NOTE 5: SUBSEQUENT EVENTS

Subsequent events were evaluated through September 27, 2019, the date the Condensed Financial Statements were available to be issued. On August 2, 2019, the Company recovered \$23,569 in sale proceeds on real estate owned.

GROUND FLOOR REAL ESTATE 1, LLC

Financial Statements

December 31, 2018 and 2017

GROUND FLOOR REAL ESTATE 1, LLC

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Independent Auditors' Report

To the Board of Directors
Groundfloor Real Estate 1, LLC
Atlanta, Georgia

We have audited the accompanying financial statements of Groundfloor Real Estate 1, LLC (the "Company"), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, member's (deficit) equity, 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 Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, 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.

Substantial Doubt about the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has not earned any significant revenues since its inception which result in substantial doubt about the ability of the Company to continue as a going concern. Management's evaluation of the events and conditions and management's plans in regard to that matter also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Cherry Bekert LLP

Atlanta, Georgia
September 27, 2019

GROUND FLOOR REAL ESTATE 1, LLC

Balance Sheets

	December 31,	
	2018	2017
Assets		
Current assets:		
Cash	\$ 20,100	\$ 389,400
Loans to developers, net	157,070	2,743,606
Interest receivable on loans to developers	9,903	148,218
Other real estate owned	23,569	-
Total current assets	<u>210,642</u>	<u>3,281,224</u>
Total assets	<u>\$ 210,642</u>	<u>\$ 3,281,224</u>
Liabilities and Member's Equity		
Current liabilities:		
Accounts payable	\$ -	\$ -
Related party payable	-	-
Accrued interest on limited recourse obligations	9,903	148,218
Limited recourse obligations, net	200,739	3,133,006
Total current liabilities	<u>210,642</u>	<u>3,281,224</u>
Total liabilities	<u>210,642</u>	<u>3,281,224</u>
Member's equity:		
Member's capital	100	100
Member's contribution receivable	(100)	(100)
Retained earnings	-	-
Total member's equity	<u>-</u>	<u>-</u>
Total liabilities and member's equity	<u>\$ 210,642</u>	<u>\$ 3,281,224</u>

See accompanying notes to financial statements

GROUND FLOOR REAL ESTATE 1, LLC

Statements of Operations

	Year Ended December 31,	
	2018	2017
Loan servicing revenue	\$ 5,200	\$ 16,400
Net interest income:		
Interest income	95,899	216,437
Interest expense	(95,899)	(216,437)
Net interest income	-	-
Net revenue	5,200	16,400
Cost of revenue	3,250	10,250
Gross profit	1,950	6,150
Operating expenses:		
General and administrative	1,950	5,100
Total operating expenses	1,950	5,100
Income from operations	-	1,050
Net income	\$ -	\$ 1,050

See accompanying notes to financial statements

GROUND FLOOR REAL ESTATE 1, LLC

Statements of Member's (Deficit) Equity

	Member's Capital	Member's Contribution Receivable	(Accumulated deficit) Retained Earnings	Total Member's (Deficit) Equity
Member's deficit as of December 31, 2016	\$ 100	\$ (100)	\$ (1,050)	\$ (1,050)
Member contributions	-	-	-	-
Net income	-	-	1,050	1,050
Member's equity as of December 31, 2017	<u>100</u>	<u>(100)</u>	<u>-</u>	<u>-</u>
Net income	-	-	-	-
Member's equity as of December 31, 2018	<u>\$ 100</u>	<u>\$ (100)</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements

GROUND FLOOR REAL ESTATE 1, LLC

Statements of Cash Flows

	Year Ended December 31,	
	2018	2017
Cash flows from operating activities		
Net income	\$ -	\$ 1,050
Adjustments to reconcile net income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Interest receivable on loans to developers	(95,899)	(148,218)
Accounts payable and related party payable	-	(1,050)
Accrued interest on limited recourse obligations	95,899	148,218
Net cash provided by operating activities	<u>-</u>	<u>-</u>
Cash flows from investing activities		
Loan payments to developers	(299,644)	(4,930,941)
Repayments of loans from developers	3,057,065	2,187,335
Net cash provided by (used in) investing activities	<u>2,757,421</u>	<u>(2,743,606)</u>
Cash flows from financing activities		
Proceeds from limited recourse obligations	-	5,034,456
Repayments of limited recourse obligations	(3,126,721)	(1,901,450)
Issuance of membership interest	-	-
Net cash (used in) provided by financing activities	<u>(3,126,721)</u>	<u>3,133,006</u>
Net (decrease) increase in cash	(369,300)	389,400
Cash as of beginning of the period	389,400	-
Cash as of end of the period	<u>\$ 20,100</u>	<u>\$ 389,400</u>
Supplemental disclosure of noncash investing and financing activities:		
Loans to developers transferred to other real estate owned	\$ 23,569	\$ -
Write-down of loans to developers and limited recourse obligations, net	35,054	-
Write-down of interest receivable on loans to developers and accrued interest on limited recourse obligations	4,706	-

See accompanying notes to financial statements

GROUND FLOOR REAL ESTATE 1, LLC

Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of Presentation**

GROUND FLOOR Real Estate 1, LLC (the “Company”), a Georgia limited liability company formed on December 16, 2016. The Company is a wholly-owned subsidiary of GROUND FLOOR Finance Inc. (“GROUND FLOOR”), a Georgia corporation.

Description of Business

GROUND FLOOR has developed an online investment platform designed to crowdsource financing for real estate development projects, which GROUND FLOOR utilizes to provide investment opportunities to investors. With this online investment platform, investors are able to choose between multiple real estate development investment opportunities, and developers of the projects are able to obtain financing. GROUND FLOOR believes this method of financing real estate has many advantages including reduced project origination and financing costs, lower interest rates for real estate development financing, and attractive returns for investors. GROUND FLOOR will identify which loans it seeks to originate, and will sell limited recourse obligations (“LROs”) which correspond to those loans. GROUND FLOOR’s primary business is the sale of LROs and the Company’s primary purpose is the servicing of loans which correspond to those LROs.

Basis of Accounting and Liquidity

The Company’s financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities and commitments in the normal course of business.

Operations since inception have consisted primarily of organizing the Company. The accompanying financial statements have been prepared on a basis which assumes that the Company will continue as a going concern. The Company has not earned limited revenue since its inception. The ultimate success of the Company is dependent on management’s ability to develop and market its products and services at levels sufficient to generate operating revenues in excess of expenses. Management evaluated the condition of the Company and has determined that until such sales levels can be achieved, management will need to secure additional capital to continue to fund product development and sales and marketing.

Management intends to fund operations by capital obtained from GROUND FLOOR. However, there are no assurances that the Company can be successful in obtaining the additional capital or such financing will be on terms favorable or acceptable to the Company or GROUND FLOOR. These matters raise substantial doubt about the ability of the Company to continue as a going concern.

The financial statements do not include any adjustments that might result from the outcome of uncertainties described in the financial statements. In addition, the financial statements do not include any adjustments relating to the recoverability and classification of assets nor the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

Use of 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 and disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenue primarily results from fees earned on the loans to the Developers (the “Loans”). Fees include “Loan servicing revenue” which are paid by the Developers.

GROUND FLOOR REAL ESTATE 1, LLC

Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Loan Servicing Revenue**

The loan servicing revenue is recognized by the Company, upon recovery, for costs incurred in servicing the Developer's Loan, including managing payments to and from Developers and payments to Investors. The Company records loan servicing revenue as a component of revenue when collected.

Interest Income on Loans to Developers and Interest Expense on Limited Recourse Obligations

The Company recognizes "Interest income" on Loans and "Interest expense" on the corresponding LROs (if issued by GROUND FLOOR Real Estate 1, LLC) using the accrual method based on the stated interest rate to the extent the Company believes it to be collectable. For the purposes of these Financial Statements, "Limited recourse obligations, net" refers to LROs. LROs are the Company's currently registered securities.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company had no cash equivalents as of December 31, 2018 and 2017. From time to time, the Company could maintain cash deposits in excess of federally insured limits. The Company believes credit risk related to its cash and cash equivalents to be minimal.

Loans to Developers and Limited Recourse Obligations

"Loans to developers, net" and the corresponding "Limited recourse obligations, net", used to fund the Loans are originally recorded at outstanding principal. The interest rate associated with a Loan is the same as the interest rate associated with the corresponding LROs.

The Company's obligation to pay principal and interest on an LRO is equal to the pro rata portion of the total principal and interest payments collected from the corresponding Loan. The Company obtains a lien against the property being financed and attempts reasonable collection efforts upon the default of a Loan. The Company's lien may be senior or junior to the Borrower's other financing obligations. The Company is not responsible for repaying "Limited recourse obligations, net" associated with uncollectable "Loans to developers, net". Amounts collected related to a Loan default are returned to the Investors based on their pro rata portion of the corresponding LROs, if applicable, less collection costs incurred by the Company.

The Loan and corresponding LROs are recorded on the Company's Balance Sheets to "Loans to developers, net" and "Limited recourse obligations, net", respectively, once the Loan has closed. Loans are considered closed after the promissory note for that Loan has been signed and the security interest has been perfected.

GROUND FLOOR REAL ESTATE I, LLC

Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Nonaccrual and Past Due Loans**

“Interest income” is accrued on the outstanding principal balance. The accrual of interest on “Loans to developers, net” and corresponding “Limited recourse obligations, net” is discontinued when, in management’s opinion, the borrower may be unable to make payments as they become due, unless the Loan is well secured and in the process of collection. “Interest income” and “Interest expense” on the “Loans to developers, net” and the corresponding “Limited recourse obligations, net” are discontinued and placed on nonaccrual status at the time the Loan is 90 days delinquent unless the Loan is well secured and in process of collection. The “Loans to developers, net” and corresponding “Limited recourse obligations, net” are charged off to the extent principal or interest is deemed uncollectible. Non-accrual Loans and Loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. All interest accrued, but not collected for “Loans to developers, net” and “Limited recourse obligations, net” that are placed on nonaccrual or charged off, is reversed against “Interest income” and the corresponding LROs recorded “Interest expense”.

Interest income collected on nonaccrual Loans is applied against principal until the Loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans include Loans on nonaccrual status. When determining if the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Company considers the borrower’s capacity to pay, which includes such factors as the borrower’s current financial position, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as collateral value and guarantor support. The Company individually assesses for impairment all nonaccrual Loans and all Loans in fundamental default. If a Loan is deemed impaired, a specific valuation allowance is allocated, if necessary, so that the Loan is reported net, at the present value of estimated future cash flows using the Loan’s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis.

Allowance for Uncollectable Loans and Undeliverable Limited Recourse Obligations

Payments to holders of LROs, as applicable, depend on the payments received on the corresponding Loans; a reduction or increase of the expected future payments on Loans will decrease or increase the reserve for the associated LROs. The Company recognizes a reserve for uncollectable Loans and corresponding reserve for undeliverable LROs in an amount equal to the estimated probable losses net of recoveries. The allowance is based on management’s estimates and analysis of historical bad debt experience, existing economic conditions, current loan aging schedules, and expected future write-offs, as well as an assessment of specific, identifiable Developer accounts considered at risk or uncollectible. Expected losses and actual charge-offs on Loans are offset to the extent that the Loans are financed by LROs, as applicable, that effectively absorb the related Loan losses.

“Loans to developers, net” are presented net of a reserve for doubtful accounts of \$0 and \$0 as of December 31, 2018 and 2017, respectively. “Limited recourse obligations, net” are presented net of a reserve for doubtful accounts of \$35,054 and \$0 as of December 31, 2018 and 2017, respectively.

GROUND FLOOR REAL ESTATE I, LLC

Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)**Other Real Estate Owned**

Foreclosed assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less estimated cost to sell. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Costs of improvements are capitalized up to the fair value of the property, whereas costs relating to holding foreclosed assets and subsequent adjustments to the value are charged to operations.

Income Taxes

As a limited liability company, the Company is not a taxpaying entity for federal income tax purposes. Accordingly, its taxable income or losses are allocated to its member based on the provisions of the operating agreement and are included in the members' income tax returns. The financial statements, therefore, do not include a provision for income taxes. Similar provisions apply for state income tax purposes.

Management has assessed the effect of the guidance provided by U.S. GAAP on accounting for uncertainty in income taxes. Management has evaluated all tax positions that could have a significant effect on the financial statements and determined the Company had no uncertain income tax positions at December 31, 2018 and 2017.

NOTE 2: 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"), which will be effective January 1, 2019, for the Company. The Company had the option to early adopt the ASU as of January 1, 2017. The guidance clarifies that revenue from contracts with customers should be recognized in a manner that depicts both the likelihood of payment and the timing of the related transfer of goods or performance of services. In March 2016, the FASB issued an amendment ASU 2016-12, *Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* to the new revenue recognition guidance clarifying how to determine if an entity is a principal or agent in a transaction. In April 2016 ASU 2016-10, *Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing* and May 2016 ASU 2016-12, *Revenue from Contracts with Customers: Scope Improvements and Practical Expedients*, the FASB further amended the guidance to include performance obligation identification, licensing implementation, collectability assessment and other presentation and transition clarifications. The effective date and transition requirements for the amendments is the same as for ASU 2014-09. The Company is currently evaluating the impact of this accounting standard update on its Financial Statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace the current incurred loss approach with an expected loss model, referred to as the current expected credit loss ("CECL") model. The new standard will apply to financial assets subject to credit losses and measured at amortized cost and certain off-balance-sheet credit exposures, which include, but are not limited to, loans, leases, held-to-maturity securities, loan commitments and financial guarantees. ASU 2016-13 simplifies the accounting for purchased credit-impaired debt securities and loans and expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2020. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Upon adoption, ASU 2016-13 provides for a modified retrospective transition by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is effective. The Company is currently evaluating the impact this standard will have on the Company's Financial Statements.

GROUND FLOOR REAL ESTATE 1, LLC

Notes to Financial Statements

NOTE 3: LOANS TO DEVELOPERS, NET

The Company purchases notes that provide financing to borrowers for real estate-related loans. Real estate loans include loans for unoccupied single family or multifamily renovations costing between \$20,000 and \$2,000,000 over six months to a year.

The Company uses three performance states to better monitor the credit quality of outstanding loans. Outstanding loans are characterized as follows:

Current - This status indicates that no events of default have occurred, all payment obligations have been met or none are yet triggered.

Workout - This status indicates there has been one or more payment defaults on the Loan and the Company has negotiated a modification of the original terms that does not amount to a fundamental default.

Fundamental Default - This status indicates a Loan has defaulted and there is a chance the Company will not be able to collect 100% of the principal amount of the Loan by the extended payment date of the corresponding LROs. The Company has commenced a formal foreclosure process to secure the real estate property.

GROUND FLOOR uses a proprietary grading algorithm to assign one of seven letter grades, from A to G, to each Project. The letter grade generally reflects the overall risk of the Loan, with A indicating less risk and G indicating higher risk. The following table presents the carrying amount of "Loans to developers, net" by letter grade and performance state as of December 31, 2018 and 2017, respectively:

	<u>Current</u>	<u>Workout</u>	<u>Fundamental Default</u>	<u>Total</u>
Loan grades:				
A	\$ -	\$ -	\$ -	\$ -
B	-	-	-	-
C	-	-	157,070	157,070
D	-	-	-	-
E	-	-	-	-
F	-	-	-	-
G	-	-	-	-
Carrying amount as of December 31, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 157,070</u>	<u>\$ 157,070</u>
Loan grades:				
A	\$ 57,335	\$ -	\$ -	\$ 57,335
B	1,957,175	-	-	1,957,175
C	729,096	-	-	729,096
D	-	-	-	-
E	-	-	-	-
F	-	-	-	-
G	-	-	-	-
Carrying amount as of December 31, 2017	<u>\$ 2,743,606</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,743,606</u>

GROUND FLOOR REAL ESTATE 1, LLC

Notes to Financial Statements

NOTE 3: LOANS TO DEVELOPERS, NET (continued)**Nonaccrual and Past Due Loans**

A Loan is placed on nonaccrual status when, in management's judgment, the collection of the interest income appears doubtful. "Interest receivable on loans to developers" that has been accrued and is subsequently determined to have doubtful collectability is charged to "Interest income" and the corresponding "Accrued interest on limited recourse obligations" that has been accrued and is subsequently determined to have doubtful collectability is charged to "Interest expense". Interest income on Loans that are classified as nonaccrual is subsequently applied to principal until the Loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Past due Loans are loans whose principal or interest is past due 30 days or more. As of December 31, 2018, the Company placed Loans of \$157,070 recorded to "Loans to developers, net" on nonaccrual status.

The following table presents an analysis of past due Loans as of December 31, 2018 and 2017:

	<u>Carrying Amount</u>	<u>Allowance for Loan Losses</u>	<u>Total</u>
Aging schedule:			
Current	\$ -	\$ -	\$ -
Less than 90 days past due	-	-	-
More than 90 days past due	157,070	-	157,070
Total as of December 31, 2018	<u>\$ 157,070</u>	<u>\$ -</u>	<u>\$ 157,070</u>
	<u>Carrying Amount</u>	<u>Allowance for Loan Losses</u>	<u>Total</u>
Aging schedule:			
Current	\$ 2,743,606	\$ -	\$ 2,743,606
Less than 90 days past due	-	-	-
More than 90 days past due	-	-	-
Total as of December 31, 2017	<u>\$ 2,743,606</u>	<u>\$ -</u>	<u>\$ 2,743,606</u>

Impaired Loans

The following is a summary of information pertaining to impaired loans as of December 31, 2018:

	<u>Balance</u>
Nonaccrual loans	\$ 157,070
Fundamental default not included above	-
Total impaired loans	<u>\$ 157,070</u>
Interest income recognized on impaired loans	<u>\$ 9,903</u>

The following table presents an analysis of information pertaining to impaired loans as of December 31, 2018:

	<u>Balance</u>
Principal loan balance	\$ 157,070
Recorded investment with no allowance	157,070
Recorded investment with allowance	-
Total recorded investment	<u>\$ 157,070</u>
Related allowance	-
Average recorded investment	\$ 157,070

GROUND FLOOR REAL ESTATE 1, LLC

Notes to Financial Statements

NOTE 3: LOANS TO DEVELOPERS, NET (continued)

The following is a summary of information pertaining to impaired loans as of December 31, 2017:

	<u>Balance</u>
Nonaccrual loans	\$ -
Fundamental default not included above	-
Total impaired loans	<u>\$ -</u>
Interest income recognized on impaired loans	<u>\$ -</u>

The following table presents an analysis of information pertaining to impaired loans as of December 31, 2017:

	<u>Balance</u>
Principal loan balance	\$ -
Recorded investment with no allowance	-
Recorded investment with allowance	-
Total recorded investment	<u>\$ -</u>
Related allowance	-
Average recorded investment	\$ -

GROUND FLOOR REAL ESTATE 1, LLC

Notes to Financial Statements

NOTE 3: LOANS TO DEVELOPERS, NET (continued)**Credit Quality Monitoring**

The following table presents “Loans to developers, net” by performance state as of December 31, 2018 and 2017:

	<u>Carrying Amount</u>	<u>Allowance for Loan Losses</u>	<u>Loans to Developers, Net</u>
Performance states:			
Current	\$ -	\$ -	\$ -
Workout	-	-	-
Fundamental default	157,070	-	157,070
Total as of December 31, 2018	<u>\$ 157,070</u>	<u>\$ -</u>	<u>\$ 157,070</u>
	<u>Carrying Amount</u>	<u>Allowance for Loan Losses</u>	<u>Loans to Developers, Net</u>
Performance states:			
Current	\$ 2,743,606	\$ -	\$ 2,743,606
Workout	-	-	-
Fundamental default	-	-	-
Total as of December 31, 2017	<u>\$ 2,743,606</u>	<u>\$ -</u>	<u>\$ 2,743,606</u>

GROUND FLOOR REAL ESTATE 1, LLC

Notes to Financial Statements

NOTE 3: LOANS TO DEVELOPERS, NET (concluded)**Allowance for Loan Losses**

The following table details activity in the allowance for loan losses for the years ended December 31, 2018 and 2017:

	Balance
Balance, December 31, 2017	\$ -
Allowance for loan loss	-
Loans charged off	-
Outstanding as of December 31, 2018	<u>\$ -</u>
Period-end amount allocated to:	
Loans individually evaluated for impairment	\$ -
Loans collectively evaluated for impairment	-
Balance, December 31, 2018	<u>\$ -</u>
Loans:	
Individually evaluated for impairment	\$ 157,070
Collectively evaluated for impairment	-
Balance, December 31, 2018	<u>\$ 157,070</u>
	Balance
Balance, December 31, 2016	\$ -
Allowance for loan loss	-
Loans charged off	-
Outstanding as of December 31, 2017	<u>\$ -</u>
Period-end amount allocated to:	
Loans individually evaluated for impairment	\$ -
Loans collectively evaluated for impairment	-
Balance, December 31, 2017	<u>\$ -</u>
Loans:	
Individually evaluated for impairment	\$ -
Collectively evaluated for impairment	-
Balance, December 31, 2017	<u>\$ -</u>

GROUNDFLOOR REAL ESTATE 1, LLC

Notes to Financial Statements

NOTE 4: OTHER REAL ESTATE OWNED

“Other real estate owned” in the Company’s Balance Sheet was \$23,569 and \$0 at December 31, 2018 and 2017, respectively. During the year ended December 31, 2018 the Company transferred \$58,623 from “Loans to developers, net” to “Other real estate owned”. Other real estate owned met the held for sale criteria and have been recorded at the lower of carrying amount or fair value less cost to sell. There was no impact to the Company’s Statements of Operation from this transfer. The Company recorded a decrease of \$35,054 to “Loans to developers, net” and an offsetting decrease to “Limited recourse obligations, net”.

NOTE 5: RELATED PARTY ARRANGEMENTS**GROUNDFLOOR Finance Inc.**

GROUNDFLOOR will receive fees and compensation in connection with the Company’s Offering, and the servicing and sale of the Company’s LROs.

The Company will also reimburse GROUNDFLOOR for actual expenses incurred on behalf of the Company in connection with the servicing of a Loan, to the extent not reimbursed by the borrower. The Company will reimburse GROUNDFLOOR for out-of-pocket expenses paid to third parties in connection with providing services to the Company. This does not include GROUNDFLOOR’s overhead, employee costs borne by GROUNDFLOOR, utilities or technology costs. For the year ended December 31, 2018 and 2017, GROUNDFLOOR incurred \$5,100 and \$1,950 of costs on the Company’s behalf, respectively. No such costs were due and payable to GROUNDFLOOR as of December 31, 2018 and 2017, respectively.

GROUNDFLOOR GA Holdings LLC

GROUNDFLOOR GA Holdings LLC may close and fund a Loan prior to it being acquired by the Company. The ability to warehouse Loans allows us the flexibility to deploy the offering proceeds as funds are raised. The Company then will acquire such LROs at a price equal to the fair market value of the Loan (including reimbursements for servicing fees and accrued interest, if any), so there is no mark-up (or mark-down) at the time of purchase.

NOTE 6: SUBSEQUENT EVENTS

Subsequent events were evaluated through September 27, 2019, the date the Financial Statements were available to be issued. On August 2, 2019, the Company recovered \$23,569 in sale proceeds on real estate owned.

**GROUND FLOOR FINANCE INC.
AND SUBSIDIARIES**

Condensed Consolidated Financial Statements

June 30, 2019 and 2018

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

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GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	Unaudited June 30, 2019	Audited December 31, 2018
Assets		
Current assets:		
Cash	\$ 2,047,549	\$ 1,069,392
Loans to developers, net	54,201,956	38,761,717
Interest receivable on loans to developers	2,752,228	1,821,073
Other current assets	85,604	484,391
Total current assets	<u>59,087,337</u>	<u>42,136,573</u>
Property, equipment, software, website, and intangible assets, net	847,081	813,104
Other assets	42,604	63,906
Total assets	<u>\$ 59,977,022</u>	<u>\$ 43,013,583</u>
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,714,598	\$ 2,493,158
Accrued interest on limited recourse obligations	2,064,367	1,372,474
Limited recourse obligations, net	44,126,772	31,719,205
Revolving credit facility	5,281,294	5,493,605
Convertible notes	645,000	1,800,000
Short-term notes payable	6,086,814	2,925,082
Total current liabilities	<u>59,918,845</u>	<u>45,803,524</u>
Other liabilities	139,693	60,765
Total liabilities	<u>60,058,538</u>	<u>45,864,289</u>
Stockholders' deficit:		
Common stock, no par, 5,000,000 shares authorized, 2,091,153 and 1,732,585 issued and outstanding	10,830,464	6,125,264
Series A convertible preferred stock, no par, 747,385 shares designated, 747,373 shares issued and outstanding (liquidation preference of \$4,999,925)	4,962,435	4,962,435
Series seed convertible preferred stock, no par, 568,796 shares designated, issued and outstanding (liquidation preference of \$2,960,583)	2,609,091	2,609,091
Additional paid-in capital	1,259,821	1,083,572
Accumulated deficit	(19,742,767)	(17,630,508)
Stock subscription receivable	(560)	(560)
Total stockholders' deficit	<u>(81,516)</u>	<u>(2,850,706)</u>
Total liabilities and stockholders' deficit	<u>\$ 59,977,022</u>	<u>\$ 43,013,583</u>

See accompanying notes to condensed consolidated financial statements

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

	Unaudited	
	Six Months Ended June 30,	
	2019	2018
Non-interest revenue:		
Origination fees	\$ 1,216,642	\$ 415,741
Loan servicing revenue	752,162	416,892
Total non-interest revenue	<u>1,968,804</u>	<u>832,633</u>
Net interest income:		
Interest income	2,854,020	1,229,386
Interest expense	<u>(2,245,280)</u>	<u>(1,008,149)</u>
Net interest income	<u>608,740</u>	<u>221,237</u>
Net revenue	2,577,544	1,053,870
Cost of revenue	<u>(328,706)</u>	<u>(158,378)</u>
Gross profit	2,248,838	895,492
Operating expenses:		
General and administrative	940,396	971,678
Sales and customer support	1,264,973	1,012,967
Development	356,836	259,812
Regulatory	189,068	168,154
Marketing and promotions	591,799	916,830
Total operating expenses	<u>3,343,072</u>	<u>3,329,441</u>
Loss from operations	<u>(1,094,234)</u>	<u>(2,433,949)</u>
Interest expense	1,018,025	411,413
Net loss	<u>\$ (2,112,259)</u>	<u>\$ (2,845,362)</u>

See accompanying notes to condensed consolidated financial statements

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholder's Deficit

	Series A Convertible Preferred Stock		Series Seed Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Stock Subscription Receivable	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount				
Stockholders' deficit as of December 31, 2017 (audited)	747,373	\$4,962,435	568,796	\$2,609,091	1,136,406	\$ 56,834	\$ 677,929	\$(11,529,853)	\$ (560)	\$ (3,224,124)
Shares issued in the 2018 Common Stock Offering, net of offering costs	-	-	-	-	468,764	4,562,634	-	-	-	4,562,634
Shares issued in a private placement	-	-	-	-	125,000	1,500,000	-	-	-	1,500,000
Exercise of stock options	-	-	-	-	2,415	5,796	-	-	-	5,796
Share-based compensation expense and warrants	-	-	-	-	-	-	405,643	-	-	405,643
Net loss	-	-	-	-	-	-	-	(6,100,655)	-	(6,100,655)
Stockholders' deficit as of December 31, 2018 (audited)	<u>747,373</u>	<u>\$4,962,435</u>	<u>568,796</u>	<u>\$2,609,091</u>	<u>1,732,585</u>	<u>\$ 6,125,264</u>	<u>\$ 1,083,572</u>	<u>\$(17,630,508)</u>	<u>\$ (560)</u>	<u>\$ (2,850,706)</u>
Shares issued in the 2019 Common Stock Offering, net of offering costs	-	-	-	-	213,345	3,412,567	-	-	-	4,701,460
Shares issued in the 2018 Common Stock Offering, net of offering costs	-	-	-	-	143,223	1,288,893	-	-	-	4,562,634
Exercise of stock options	-	-	-	-	2,000	3,740	-	-	-	3,740
Share-based compensation expense and warrants	-	-	-	-	-	-	176,249	-	-	176,249
Net loss	-	-	-	-	-	-	-	(2,112,259)	-	(2,112,259)
Stockholders' deficit as of June 30, 2019 (unaudited)	<u>747,373</u>	<u>\$4,962,435</u>	<u>568,796</u>	<u>\$2,609,091</u>	<u>2,091,153</u>	<u>\$10,830,464</u>	<u>\$ 1,259,821</u>	<u>\$(19,742,767)</u>	<u>\$ (560)</u>	<u>\$ (81,516)</u>

See accompanying notes to condensed consolidated financial statements

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

	Unaudited	
	Six Months Ended June 30,	
	2019	2018
Cash flows from operating activities		
Net loss	\$ (2,112,259)	\$ (2,845,362)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	254,269	154,311
Share-based compensation	74,634	152,400
Noncash interest expense	97,587	8,518
Loss (gain) on sale of real estate owned	-	20,585
Origination of loans held for sale	(6,478,955)	-
Proceeds from sales of loans held for sale	6,478,955	-
Conversion of beneficial interests	198,723	181,347
Changes in operating assets and liabilities:		
Other current assets	36,634	(58,939)
Interest receivable on loans to developers	(2,769,347)	(1,047,570)
Accounts payable and accrued expenses	(565,740)	(246,155)
Accrued interest on limited recourse obligations	2,192,469	1,029,773
Net cash used in operating activities	<u>(2,593,030)</u>	<u>(2,651,092)</u>
Cash flows from investing activities		
Loan payments to developers	(33,864,787)	(15,704,100)
Repayments of loans from developers	20,236,326	11,535,848
Proceeds from sale of properties held for sale	301,067	1,057,621
Purchases of computer equipment and furniture and fixtures	(11,757)	(76,952)
Payments of software and website development costs	(276,489)	(228,622)
Net cash used in investing activities	<u>(13,615,640)</u>	<u>(3,416,205)</u>
Cash flows from financing activities		
Proceeds from limited recourse obligations	33,802,754	15,313,410
Repayments of limited recourse obligations	(22,786,960)	(13,253,673)
Payment of deferred financing costs	(10,000)	-
Borrowings from the revolving credit facility	24,309,980	11,858,765
Repayments on the revolving credit facility	(24,522,291)	(10,684,404)
Proceeds from GROUND FLOOR Notes	9,686,010	-
Repayments from GROUND FLOOR Notes	(6,410,250)	-
Proceeds from issuance of shares in the 2019 Common Stock Offering, less offering costs	3,213,844	-
Proceeds from issuance of shares in the 2018 Common Stock Offering, less offering costs	-	3,571,573
Exercise of stock options	3,740	2,998
Repayments of shareholder loan	(100,000)	-
Net cash provided by financing activities	<u>17,186,827</u>	<u>6,808,669</u>
Net increase (decrease) in cash	978,157	741,372
Cash as of beginning of the period	<u>1,069,392</u>	<u>1,354,170</u>
Cash as of end of the period	<u>\$ 2,047,549</u>	<u>\$ 2,095,542</u>
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 659,602	\$ 319,865

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

	Unaudited	
	Six Months Ended June 30,	
	2019	2018
Supplemental disclosure of noncash investing and financing activities:		
Conversion of convertible notes payable and accrued interest converted into common stock	1,288,893	-
Issued warrants in connection with the note payable	101,615	54,500

See accompanying notes to condensed consolidated financial statements

GROUNDFLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Description of Business**

The terms "we," "our," or the "Company" refer to Groundfloor Finance Inc. and its subsidiaries. The Company was originally organized as a North Carolina limited liability company under the name of Fomentum Labs LLC on January 28, 2013. Fomentum Labs LLC changed their name to Groundfloor LLC on April 26, 2013, and converted into a North Carolina corporation on July 26, 2013. In connection with this conversion, all equity interests in Groundfloor LLC were converted into shares of GROUND FLOOR Inc.'s common stock. In August 2014, GROUND FLOOR Inc. converted into a Georgia corporation and changed their name to Groundfloor Finance Inc. The accounting effects of these conversions are reflected retrospectively in the Condensed Consolidated Financial Statements. Groundfloor Holdings GA, LLC is the holder of the Revolver, as defined in Note 7. Groundfloor Properties GA LLC was created for the purpose of financing real estate in Georgia. Groundfloor Real Estate 1 LLC was created for the purpose of financing real estate in nine states. Groundfloor Real Estate, LLC is currently inactive and management does not have plans to use this entity in the near future.

The Company has developed an online investment platform designed to crowdsource financing for real estate development projects (the "Projects"). With this online investment platform (the "Platform"), public investors (the "Investors") are able to choose between multiple Projects, and real estate developers (the "Developers") of the Projects are able to obtain financing. GROUND FLOOR's financing model replaces traditional sources of financing for Projects with the aggregation of capital from Investors using the internet.

GROUND FLOOR formed Groundfloor Properties GA LLC ("Groundfloor GA") in August 2013 for the purpose of issuing nonrecourse promissory notes ("Georgia Notes") corresponding to commercial real estate loans entered into by Groundfloor GA to residents of Georgia. Groundfloor GA began offering these investment opportunities to residents of Georgia through the Platform in November 2013.

Following the qualification of the Company's first offering statement on Form 1-A on August 31, 2015, the Company began a multistate offering of limited recourse obligations ("LROs") to Investors corresponding to commercial loans for real estate development projects financed by the Company. The Company does not intend to issue any additional Georgia Notes.

The Company believes this method of real estate financing has many advantages including reduced Project origination costs, lower interest rates for Developers, and attractive returns for Investors.

Basis of Presentation and Liquidity

The Company's Condensed Consolidated Financial Statements include Groundfloor Finance Inc. and its wholly owned subsidiaries, Groundfloor Properties GA LLC; Groundfloor Real Estate, LLC; Groundfloor Holdings GA, LLC; Groundfloor Real Estate 1 LLC; and Groundfloor Real Estate 2, LLC (collectively the "Company" or "GROUND FLOOR"). Intercompany transactions and balances have been eliminated upon consolidation.

The Company's Condensed Consolidated Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities and commitments in the normal course of business.

Operations since inception have consisted primarily of organizing the Company, developing the technology, and securing financing. The accompanying Condensed Consolidated Financial Statements have been prepared on a basis which assumes that the Company will continue as a going concern. The Company has incurred losses and cash outflows from operations since its inception. The ultimate success of the Company is dependent on management's ability to develop and market its products and services at levels sufficient to generate operating revenues in excess of expenses.

GROUNDFLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Management evaluated the condition of the Company and has determined that until such sales levels can be achieved, management will need to secure additional capital to continue growing working capital and fund product development and operations.

Management intends to raise additional debt or equity financing to grow working capital and fund operations. Management believes the Company will obtain additional funding from current and new Investors in order to sustain operations. However, there are no assurances that the Company can be successful in obtaining the additional capital or that such financing will be on terms favorable or acceptable to the Company.

As of issuance date, the Company closed on approximately \$3,000,000 in equity financing, see Note 13, "Subsequent Events."

There is substantial doubt that the Company will continue as a going concern for at least 12 months following the date these Condensed Consolidated Financial Statements are issued, without additional financing based on the Company's limited operating history and recurring operating losses.

The Condensed Consolidated Financial Statements do not include any adjustments that might result from the outcome of the uncertainties described in the Condensed Consolidated Financial Statements. In addition, the Condensed Consolidated Financial Statements do not include any adjustments relating to the recoverability and classification of assets nor the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

Use of Estimates

The preparation of Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Whole Loan Sales

Under loan sale agreements, the Company sells all of its rights, title, and interest in certain loans. At the time of such sales, the Company simultaneously enters into loan servicing agreements under which it acquires the right to service the loans. The Company calculates a gain or loss on the whole loan sale, based on the net proceeds from the whole loan sale, minus the net investment in the loans being sold. All origination fees incurred in the origination process are recognized directly to Condensed Consolidated Statements of Operations and recorded to "Origination fees".

Share-Based Compensation

The Company accounts for share-based compensation using the fair value method of accounting which requires all such compensation to employees and nonemployees, including the grant of employee stock options or warrants, to be recognized in the Consolidated Statements of Operations based on its fair value at the measurement date. The expense associated with share-based compensation is recognized on a straight-line basis over the service period of each award.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)**Income Taxes**

Deferred tax assets and liabilities are determined based on the temporary differences between the Consolidated Financial Statements carrying amounts and the tax basis of assets and liabilities using the enacted tax rates in effect in the years in which the differences are expected to reverse. In estimating future tax consequences, all expected future events are considered other than enactment of changes in the tax law or rates.

The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the Consolidated Financial Statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The determination of recording or releasing income tax valuation allowance is made, in part, pursuant to an assessment performed by management regarding the likelihood that the Company will generate future taxable income against which benefits of its deferred tax assets may or may not be realized. This assessment requires management to exercise significant judgment and make estimates with respect to its ability to generate taxable income in future periods.

Recent Accounting Pronouncements

The Company has evaluated the recent pronouncements issued since filing its annual audited Consolidated Financial Statements for the year-ended December 31, 2018 and believes that none of them will have a material effect on the Company's Condensed Consolidated Financial Statements.

NOTE 2: LOANS TO DEVELOPERS, NET

The Company provides financing to borrowers for real estate-related loans. Real estate loans include loans for unoccupied single family or multifamily renovations costing between \$20,000 and \$2,000,000 over six months to a year.

The following table presents the carrying amount of "Loans to developers, net" by letter grade and performance state as of June 30, 2019 and December 31, 2018, respectively:

	<u>Current</u>	<u>Workout</u>	<u>Fundamental Default</u>	<u>Total</u>
Loan grades:				
A	\$ 4,229,547	\$ -	\$ -	\$ 4,229,547
B	13,939,374	176,980	-	14,116,354
C	24,308,688	2,322,585	517,791	27,149,064
D	7,551,527	746,100	228,000	8,525,627
E	681,364	-	-	681,364
F	-	-	-	-
G	-	-	-	-
Carrying amount as of June 30, 2019	<u>\$ 50,710,500</u>	<u>\$ 3,245,665</u>	<u>\$ 745,791</u>	<u>\$ 54,701,956</u>

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

NOTE 2: LOANS TO DEVELOPERS, NET (continued)

	<u>Current</u>	<u>Workout</u>	<u>Fundamental Default</u>	<u>Total</u>
Loan grades:				
A	\$ 3,267,744	\$ 293,473	\$ -	\$ 3,561,217
B	7,073,701	668,100	141,150	7,882,951
C	17,009,297	2,465,820	517,791	19,992,908
D	7,140,347	263,555	228,000	7,631,902
E	192,739	-	-	192,739
F	-	-	-	-
G	-	-	-	-
Carrying amount as of December 31, 2018	<u>\$ 34,683,828</u>	<u>\$ 3,690,948</u>	<u>\$ 886,941</u>	<u>\$ 39,261,717</u>

Nonaccrual and Past Due Loans

A Loan is placed on nonaccrual status when, in management's judgment, the collection of the interest income appears doubtful. "Interest receivable on loans to developers" that has been accrued and is subsequently determined to have doubtful collectability is charged to "Interest income" and the corresponding "Accrued interest on limited recourse obligations" that has been accrued and is subsequently determined to have doubtful collectability is charged to "Interest expense". Interest income on Loans that are classified as nonaccrual is subsequently applied to principal until the Loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Past due Loans are loans whose principal or interest is past due 30 days or more. As of June 30, 2019, the Company placed Loans of \$4,050,000 recorded to "Loans to developers, net" on nonaccrual status.

The following table presents an analysis of past due Loans as of June 30, 2019 and December 31, 2018:

	<u>Carrying Amount</u>	<u>Allowance for Loan Losses</u>	<u>Total</u>
Aging schedule:			
Current	\$ 50,710,500	\$ 40,000	\$ 50,670,500
Less than 90 days past due	1,959,951	50,000	1,909,951
More than 90 days past due	2,031,505	410,000	1,621,505
Total as of June 30, 2019	<u>\$ 54,701,956</u>	<u>\$ 500,000</u>	<u>\$ 54,201,956</u>
	<u>Carrying Amount</u>	<u>Allowance for Loan Losses</u>	<u>Total</u>
Aging schedule:			
Current	\$ 35,112,798	\$ 40,000	\$ 35,072,798
Less than 90 days past due	2,404,830	50,000	2,354,830
More than 90 days past due	1,744,089	410,000	1,334,089
Total as of December 31, 2018	<u>\$ 39,261,717</u>	<u>\$ 500,000</u>	<u>\$ 38,761,717</u>

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

NOTE 2: LOANS TO DEVELOPERS, NET (continued)**Impaired Loans**

The following is a summary of information pertaining to impaired loans as of June 30, 2019:

	Balance
Nonaccrual loans	\$ 3,315,210
Fundamental default not included above	745,790
Total impaired loans	<u>4,050,000</u>
Interest income recognized on impaired loans	<u>\$ 479,000</u>

The following table presents an analysis of information pertaining to impaired loans as of June 30, 2019:

	Balance
Principal loan balance	\$ 4,205,040
Recorded investment with no allowance	3,300,000
Recorded investment with allowance	750,000
Total recorded investment	<u>\$ 4,050,000</u>
Related allowance	500,000
Average recorded investment	\$ 180,000

The following is a summary of information pertaining to impaired loans as of December 31, 2018:

	Balance
Nonaccrual loans	\$ 2,146,000
Fundamental default not included above	887,000
Total impaired loans	<u>3,033,000</u>
Interest income recognized on impaired loans	<u>\$ 400,000</u>

The following table presents an analysis of information pertaining to impaired loans as of December 31, 2018:

	Balance
Principal loan balance	\$ 3,495,120
Recorded investment with no allowance	2,146,000
Recorded investment with allowance	887,000
Total recorded investment	<u>\$ 3,033,000</u>
Related allowance	500,000
Average recorded investment	\$ 230,000

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

NOTE 2: LOANS TO DEVELOPERS, NET (continued)**Credit Quality Monitoring**

The Company uses three performance states to better monitor the credit quality of outstanding loans. Outstanding loans are characterized as follows:

Current - This status indicates that no events of default have occurred, all payment obligations have been met or none are yet triggered.

Workout - This status indicates there has been one or more payment defaults on the Loan and the Company has negotiated a modification of the original terms that does not amount to a fundamental default.

Fundamental Default - This status indicates a Loan has defaulted and there is a chance the Company will not be able to collect 100% of the principal amount of the Loan by the extended payment date of the corresponding Georgia Notes or LROs. The Company has commenced a formal foreclosure process to secure the real estate property.

The following table presents "Loans to developers, net" by performance state as of June 30, 2019 and December 31, 2018:

	<u>Carrying Amount</u>	<u>Allowance for Loan Losses</u>	<u>Loans to Developers, Net</u>
Performance states:			
Current	\$ 50,710,500	\$ -	\$ 50,710,500
Workout	3,245,665	100,000	3,145,665
Fundamental default	745,791	400,000	345,791
Total as of June 30, 2019	<u>\$ 54,701,956</u>	<u>\$ 500,000</u>	<u>\$ 54,201,956</u>
	<u>Carrying Amount</u>	<u>Allowance for Loan Losses</u>	<u>Loans to Developers, Net</u>
Performance states:			
Current	\$ 34,683,828	\$ -	\$ 34,683,828
Workout	3,690,948	100,000	3,590,948
Fundamental default	886,941	400,000	486,941
Total as of December 31, 2018	<u>\$ 39,261,717</u>	<u>\$ 500,000</u>	<u>\$ 38,761,717</u>

GROUNDLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

NOTE 2: LOANS TO DEVELOPERS, NET (concluded)**Allowance for Loan Losses**

The following table details activity in the allowance for loan losses for the years ended June 30, 2019 and December 31, 2018:

	Balance
Balance, December 31, 2018	\$ 500,000
Allowance for loan loss	100,000
Loans charged off	(100,000)
Outstanding as of June 30, 2019	<u>\$ 500,000</u>
Period-end amount allocated to:	
Loans individually evaluated for impairment	\$ 400,000
Loans collectively evaluated for impairment	100,000
Balance, June 30, 2019	<u>\$ 500,000</u>
Loans:	
Individually evaluated for impairment	\$ 750,000
Collectively evaluated for impairment	3,300,000
Balance, June 30, 2019	<u>\$ 4,050,000</u>
	Balance
Balance, December 31, 2017	\$ 640,000
Allowance for loan loss	240,000
Loans charged off	(380,000)
Outstanding as of December 31, 2018	<u>\$ 500,000</u>
Period-end amount allocated to:	
Loans individually evaluated for impairment	\$ 400,000
Loans collectively evaluated for impairment	100,000
Balance, December 31, 2018	<u>\$ 500,000</u>
Loans:	
Individually evaluated for impairment	\$ 887,000
Collectively evaluated for impairment	2,146,000
Balance, December 31, 2018	<u>\$ 3,033,000</u>

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

NOTE 3: OTHER CURRENT ASSETS

“Other current assets” at June 30, 2019 and December 31, 2018, consists of the following:

	June 30, 2019	December 31, 2018
Other real estate owned	\$ 34,924	\$ 418,379
Unbilled servicing revenue	25,127	25,127
Prepaid expenses	21,300	21,300
Other	4,253	19,585
Other current assets	<u>\$ 85,604</u>	<u>\$ 484,391</u>

NOTE 4: PROPERTY, EQUIPMENT, SOFTWARE, WEBSITE AND INTANGIBLE ASSETS, NET

“Property, equipment, software, website development costs, and intangible assets, net” at June 30, 2019 and December 31, 2018, consists of the following:

	June 30, 2019	December 31, 2018
Software and website development costs	\$ 1,581,482	\$ 1,304,993
Less: accumulated amortization	(946,701)	(725,255)
Software and website development costs, net	<u>\$ 634,781</u>	<u>\$ 579,738</u>

	June 30, 2019	December 31, 2018
Computer equipment	\$ 99,516	\$ 96,165
Leasehold improvements	12,529	12,530
Furniture and fixtures	142,955	134,548
Office equipment	45,548	45,548
Property and equipment	<u>300,548</u>	<u>288,791</u>
Less: accumulated depreciation and amortization	(111,748)	(79,925)
Property and equipment, net	<u>\$ 188,800</u>	<u>\$ 208,866</u>

	June 30, 2019	December 31, 2018
Domain names	\$ 30,000	\$ 30,000
Less: accumulated amortization	(6,500)	(5,500)
Intangible assets, net	<u>\$ 23,500</u>	<u>\$ 24,500</u>

Depreciation and amortization expense on “Property, equipment, intangible assets, software, and website development costs, net” for the six months ended June 30, 2019 and 2018 was \$254,269 and \$154,311, respectively.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

NOTE 5: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

“Accounts payable and accrued expenses” at June 30, 2019 and December 31, 2018, consists of the following:

	June 30, 2019	December 31, 2018
Trade accounts payable	\$ 465,437	\$ 762,148
Deferred revenue	1,069,950	867,950
Accrued interest expense	149,374	360,325
Accrued employee compensation	29,837	80,243
Accrued contractor compensation	-	-
Other	-	422,492
Accounts payable and accrued expenses	<u>\$ 1,714,598</u>	<u>\$ 2,493,158</u>

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

NOTE 6: REVOLVING CREDIT FACILITY

On November 1, 2016, the Company's wholly owned subsidiary, Groundfloor Holdings GA, LLC, as borrower, entered into a revolving credit facility (the "Revolver") with Revolver Capital, LLC. The credit agreement provided for revolving loans up to a maximum aggregate principal amount of \$1,500,000. The Revolver will be used for bridge funding of underlying loans pending approval from the United States Securities and Exchange Commission ("SEC").

On November 11, 2016, the Company entered into a First Amendment to the Credit Agreement (the "First Amendment") which amended the existing Revolver dated November 1, 2016, among Groundfloor Holdings GA, LLC, as borrower, and Revolver Capital, LLC, as lender. Collateral security for the Revolver includes all property of the underlying loan, upon which a lien is created in favor of the lender. The First Amendment amended the Revolver to increase the Revolving Credit Commitments thereunder from \$1,500,000 to \$2,500,000. The other terms of the credit facility remain unchanged.

On December 21, 2016, the Company entered into a Second Amendment to the Credit Agreement (the "Second Amendment") which amended the existing Revolver dated November 1, 2016, among Groundfloor Holdings GA, LLC, as borrower, and Revolver Capital, LLC, as lender. The Second Amendment amended the Revolver to increase the Revolving Credit Commitments thereunder from \$2,500,000 to \$3,500,000. The other terms of the credit facility remain unchanged.

On April 7, 2017, the Company entered into a Third Amendment to the Credit Agreement (the "Third Amendment") which amended the existing credit agreement dated November 1, 2016, among Groundfloor Holdings GA, LLC, as borrower, and Revolver Capital, LLC, as lender. The Third Amendment amended the credit agreement to increase the Revolving Credit Commitments thereunder from \$3,500,000 to \$4,500,000. In connection with the Third Amendment the Company paid a \$10,000 commitment fee, which is capitalized and amortized over a twelve-month period. The other terms of the credit facility remain unchanged.

On April 4, 2018, the Credit Agreement dated as of November 1, 2016, as amended by the First Amendment as of November 11, 2016, the Second Amendment dated as of February 22, 2017 and the Third Amendment dated as of April 7, 2017, was assigned to ACM Alamosa DA LLC. The Company and the lender agreed to amend and restate the Original Credit Agreement in its entirety. The other terms of the credit facility remain unchanged.

On September 18, 2018, the Company increased the Revolving Credit Commitments thereunder from \$4,500,000 to \$5,500,000. In connection with the increase the Company paid a \$10,000 commitment fee, which is capitalized and amortized over a twelve-month period. The other terms of the credit facility remain unchanged.

The Revolver maturity date is November 1, 2019. The Company has the option to request and the lender may, in its sole discretion, elect to extend the maturity date.

As of June 30, 2019, the Company had \$217,000 of available borrowings and \$5,500,000 outstanding under the Revolver as presented within Revolving credit facility on the Condensed Consolidated Balance Sheets. As of June 30, 2019, the Company reflected \$1,667 of deferred financing costs related to the Revolver as a reduction to the Revolving credit facility in the Condensed Consolidated Balance Sheets. Amortization of these costs was \$5,000 and \$833 for the six months ended June 30, 2019 and 2018, respectively. Accrued interest on the Revolver, presented within "Accounts payable and accrued expenses" in the Company's Consolidated Balance Sheets, was \$44,400 and \$111,288 at June 30, 2019 and December 31, 2018, respectively.

The Revolver contains certain affirmative and negative covenants, including financial and other reporting requirements. The Company is in compliance with all such covenants at June 30, 2019.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

NOTE 7: CONVERTIBLE NOTES

From March 2017 to May 2017, the Company issued subordinated convertible notes (the “Subordinated Convertible Notes”) to Investors for total proceeds of \$825,000. The Subordinated Convertible Notes bear interest at the rate of 8% per annum. The outstanding principal and all accrued but unpaid interest was due and payable on the earlier of September 24, 2018, or the consummation of a sale of the Company by consolidation, merger, change of majority ownership, or sale or other disposition of all or substantially all of the assets of the Company (the “Maturity Date”). In the event of a closing of a preferred stock financing with gross proceeds of at least \$8,000,000 (“Qualified Preferred Financing”) prior to the Maturity Date, the outstanding principal and all accrued but unpaid interest may be converted into shares of preferred stock issued in the financing at a price per share equal to 75% of the price per share of the Qualified Preferred Financing. In the event of a closing of a common stock financing with gross proceeds of at least \$3,000,000 (“Qualified Common Financing”) prior to the Maturity Date, the outstanding principal and all accrued but unpaid interest may be converted into shares of common stock issued in the financing at a price per share equal to 90% of the price per share of the Qualified Common Financing. The indebtedness represented by the Subordinated Convertible Notes is subordinated in all respects to the principal of (and premium, if any), unpaid interest on and amounts reimbursable, fees, expenses, costs of enforcement, and other amounts due in connection with the Revolver and the Note. On October 27, 2017, the amended and restated subordinated convertible note agreement and the note amendment agreement amended the subordinated convertible note purchase agreement dated March 24, 2017, and Subordinated Convertible Notes issued thereunder (as amended, the “Restated Subordinated Convertible Notes”), respectively. Pursuant to the Restated Subordinated Convertible Notes, the outstanding principal and all accrued but unpaid interest is due and payable on the earlier of October 3, 2019, or the consummation of a sale of the Company by consolidation, merger, change of majority ownership, or sale or other disposition of all or substantially all of the assets of the Company (the “New Maturity Date”). The interest rate of 8% per annum remained unchanged.

From October 2017 to December 2017, the Company issued Restated Subordinated Convertible Notes to Investors for total proceeds of \$1,225,000. The outstanding principal and all accrued but unpaid interest is due and payable on the New Maturity Date. In the event of a closing of a Qualified Financing prior to the New Maturity Date, the outstanding principal and all accrued but unpaid interest would become automatically converted into shares of stock issued in the financing at a price per share equal to 75% of the price per share of the financing. The indebtedness represented by the Restated Subordinated Notes is subordinated in all respects to the principal of (and premium, if any), unpaid interest on and amounts reimbursable, fees, expenses, costs of enforcement, and other amounts due in connection with the Revolver and the Note.

In 2018, a Restated Subordinated Convertible Notes holder converted their shares upon closing the 2018 Common Stock Offering, which qualified as a Qualified Common Financing. The noteholder converted \$250,000 in principal and \$27,617 in accrued interest at a 10% discount into 30,847 shares of common stock. The Company recorded \$30,847 to interest expense as a result of the beneficial conversion.

In 2019, a Restated Subordinated Convertible Notes holder converted their shares upon closing the 2018 Common Stock Offering, which qualified as a Qualified Common Financing. The noteholder converted \$1,155,000 in principal and \$133,894 in accrued interest at a 10% discount into 143,223 shares of common stock. The Company recorded \$143,223 to interest expense as a result of the beneficial conversion.

Accrued interest on the Restated Subordinated Convertible Notes, presented within “Accounts payable and accrued expenses” in the Company’s Condensed Consolidated Balance Sheets, was \$85,662 at June 30, 2019 and \$186,426 at December 31, 2018.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

NOTE 8: NOTES PAYABLE

On January 11, 2017, the Company entered into a promissory note and security agreement (the "Note") for a principal sum of \$1,000,000. We paid an origination fee of \$10,000 concurrently with the funding of the principal of the Note. We subsequently entered into an amendment to the Note extending the payment schedule for a \$5,000 amendment fee, a second amendment increasing the principal amount outstanding to \$2,000,000 for a \$30,000 amendment fee, a third amendment further extending the repayment schedule among other terms described below for a \$10,000 amendment fee, and a fourth amendment further extending the repayment schedule amount other terms described below for a \$10,000 amendment fee. The amendment fees were deferred and amortized over the life of the Note.

The Note incurs interest at a rate of 8.0% per annum from January 11, 2017 until September 30, 2017, and 14.0% per annum from October 1, 2017, until payment in full of the Note, in each case calculated on the basis of a 360-day year for the actual number of days elapsed. The Note must be repaid as follows: (i) \$50,000, plus any accrued but unpaid interest thereon, commencing on April 30, 2019, and each month thereafter, (ii) \$1,000,000, plus any accrued but unpaid interest thereon, is due and payable on October 3, 2019, and (iii) any remaining outstanding principal amount, plus any remaining accrued but unpaid interest, is due and payable on December 31, 2020.

The Note includes certain financial covenants related to the Company's quarterly financial results and operating capital. The Note is subject to customary event of default provisions. Upon the occurrence of any event of default, the interest rate under the Note shall increase by 7.0%. As collateral security for the Note, the Company granted first priority security interest in all of its assets, subject to certain exceptions. Among other things, the security interest specifically excludes (i) any assets serving as collateral for the Company's Revolver; (ii) any Loans for which a series of LROs has been issued, regardless of whether such Loans and corresponding series of LROs have been originated and issued by the Company or one of its subsidiaries; and (iii) the equity interest in any subsidiary formed by the Company for the sole purpose of issuing Loans and corresponding series of LROs.

In connection with the third amendment to the Note, the Company agreed to issue a warrant for the purchase of shares of the Company's common stock on the first day of each quarter commencing on October 1, 2017, until the Note is repaid in full for the purchase of the following number of shares: (i) for each quarter until and including the first quarter of 2019, 4,000 shares of common stock; (ii) for the second quarter of 2019, 3,500 shares of common stock; (iii) for the third quarter of 2019, 2,300 shares of common stock; and (iv) for the fourth quarter of 2019, 1,100 shares of common stock. The exercise price of the warrants issued on the Note in connection with the third amendment to the Note is \$2.40.

As of June 30, 2018, the principal sum of \$1,650,000 remains outstanding and is presented in "Short-term notes payable" on the Company's Condensed Consolidated Balance Sheets net of deferred financing fees of \$8,333, and debt discount of \$84,020, amortizable over the amended term of the Note. Amortization of these costs was \$89,695 for the six months ended June 30, 2019.

Accrued interest on the Note, presented within "Accounts payable and accrued expenses" in the Company's Condensed Consolidated Balance Sheets, was \$19,290 and \$62,611 at June 30, 2019 and December 31, 2018, respectively.

The Note includes financial covenants that may trigger events of default or principal acceleration. The Company failed to comply with all the financial covenants during the six months ended June 30, 2019. Prior to the filing date of the Condensed Consolidated Financial Statements, the Company secured a waiver to prevent a default event and principal acceleration.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

NOTE 8: NOTES PAYABLE (concluded)

In 2018, the Company entered into various secured promissory notes, (the “GROUND FLOOR Notes”), with accredited Investors. The GROUND FLOOR Notes are used for the purpose of the Company to originate, buy, and service loans for the purpose of building, buying, or rehabilitating single family and multifamily structures, or buying land, for commercial purposes. The GROUND FLOOR Notes are issued and secured by the assets of Groundfloor Real Estate 1 LLC, a wholly owned subsidiary of Groundfloor Finance, Inc. As collateral security for GROUND FLOOR Notes, the Company granted first priority security interest in all the loan assets of its wholly owned subsidiary, Groundfloor Real Estate 1 LLC, subject to certain exceptions. During the year-end December 31, 2018, there were ten notes entered into ranging in interest rates of 3.25% to 5.5% and terms of 30 and 90 days. As of June 30, 2019 and December 31, 2018, the principal sum of \$4,556,860 and \$1,281,100, respectively, remains outstanding and is presented in “Short-term notes payable” on the Company’s Consolidated Balance Sheets.

Accrued interest on the GROUND FLOOR Notes, presented within “Accounts payable and accrued expenses” in the Company’s Consolidated Balance Sheets, was \$34,573 and \$4,100 at June 30, 2019 and December 31, 2018, respectively.

NOTE 9: STOCKHOLDERS’ (DEFICIT) EQUITY**Capital Structure**

Authorized Shares - As of June 30, 2019, the Company is authorized to issue 5,000,000 shares of no par value common stock and 1,316,181 shares of no par value preferred stock. The preferred stock has been designated as Series A Preferred Stock (the “Series A”), consisting of 747,385 shares, and Series Seed Preferred Stock (the “Series Seed”), consisting of 568,796 shares (collectively, “Preferred Stock”).

Common Stock Transactions**2019 Common Stock Offering**

On January 11, 2019, the Company launched an offering of our common stock under Tier 2 of Regulation A pursuant to an offering statement on Form 1-A qualified by the Security and Exchange Commission (the “2019 Common Stock Offering”). We are offering up to 900,000 shares of our common stock at \$15 per share, with a minimum investment of \$150, or 10 shares of common stock. As of June 30, 2019, we have issued 189,592 shares of common stock in the 2019 Common Stock Offering for \$2,638,600 in proceeds.

2018 Common Stock Offering

In February 2018, the Company launched an offering of its common stock under Tier 2 of Regulation A pursuant to an offering statement on Form 1-A qualified by the SEC (the “2018 Common Stock Offering”). The Company offered up to 500,000 shares of common stock at \$10 per share, with a minimum investment of \$100, or ten shares of common stock. The aggregate initial offering price of the common stock will not exceed \$5,000,000 in any 12-month period, and there is no minimum offering amount. The Company may issue up to 30,000 additional bonus shares. The 2018 Common Stock Offering closed on July 31, 2018. During the 2018 Common Stock Offering, the Company issued 437,917 shares of common stock for gross proceeds of \$4,228,670. The Company incurred offering costs of \$125,000 related to the 2018 Common Stock Offering. During the year ended December 31, 2018, the Company recorded \$150,500 in beneficial interest related to the bonus shares issued in connection with the 2018 Common Stock Offering to “General and administrative” in the Company’s Consolidated Statement of Operations. In conjunction with the 2018 Common Stock Offering, the Company converted one noteholder’s outstanding restated subordinated convertible notes payable and accrued interest totaling \$277,617 into 30,847 shares of common stock.

In January 2019, various noteholder’s converted outstanding restated subordinated convertible notes payable and accrued interest totaling \$1,288,893 into 143,210 shares of common stock as triggered by the 2018 Common Stock Offering.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

NOTE 9: STOCKHOLDERS' (DEFICIT) EQUITY (concluded)

In October 2018, the Company entered into a common stock purchase agreement for private placement of 125,000 shares of the Company's common stock for gross proceeds of \$1,500,000.

Preferred Stock Transactions**Series A**

During 2015, the Company issued 709,812 shares of Series A to Investors for total proceeds of \$4,748,705. In conjunction with the equity issuance, the Company converted all outstanding promissory notes payable and accrued interest totaling \$251,295 into 37,561 shares of Series A.

Series Seed

During 2015 and 2014, the Company issued 201,146 and 91,259 shares, respectively, to Investors for total proceeds of \$1,047,000 and \$475,000. In conjunction with the equity issuance in 2014, the Company converted all outstanding convertible notes payable and accrued interest totaling \$1,098,388 into 276,391 shares of Series Seed.

Voting - The holders of Preferred Stock are entitled to one vote for each share of common stock into which the preferred shares are convertible.

Liquidation - Upon any liquidation, dissolution, or winding up of the Company, the holders of Series A shall be entitled to be paid out of the assets of the Company available for distribution to its stockholders before any payment shall be made to the holders of common stock or Series Seed, an amount per share equal to the greater of: i) the Series A original issue price of \$6.69 per share, plus any dividends declared but unpaid, and ii) such amount per share as would have been payable had all shares of Series A been converted into common stock immediately prior to such liquidation, dissolution, or winding up. If the available assets are insufficient to pay the holders of shares of Series A the full amount to which they shall be entitled, then all of the available assets shall be distributed to the holders of the Series A pro rata in accordance with their ownership thereof.

After payment in full of the Series A preference amount, the Series Seed stockholders are entitled to a liquidation preference equal to the greater of: i) the Series Seed original issue price of \$5.205 per share, plus any dividends declared but unpaid, or ii) such amount per share as would have been payable had all shares of Series Seed been converted into common stock immediately prior to such liquidation, dissolution, or winding up. If the available assets are insufficient to pay the holders of shares of Series Seed the full amount to which they shall be entitled, then all of the available assets shall be distributed to the holders of the Series Seed pro rata in accordance with their ownership thereof. Any assets remaining after such preferential distribution shall be distributed to holders of the common stock.

Conversion - Shares of Preferred Stock are convertible into shares of common stock at the option of the holder at any time. The number of common stock shares for Preferred Stock can be determined by dividing the original issue price by the then-effective conversion price.

Mandatory Conversion - All outstanding shares of Preferred Stock shall automatically be converted into shares of common stock upon the closing of the sales of shares of common stock to the public, with gross proceeds to the Company of at least \$30,000,000. All outstanding shares of Series A shall automatically be converted into shares of common stock by the date and time, or the occurrence of an event, specified by vote or written consent of the holders of at least a majority of the then outstanding shares of Series A, voting as a single class. All outstanding shares of Series Seed shall automatically be converted into shares of common stock by the date and time, or the occurrence of an event, specified by vote or written consent of the holders of at least a majority of the then outstanding shares of Series Seed, voting as a single class.

Dividends - All dividends shall be declared pro rata on the common stock and Preferred Stock on a pari passu basis according to the numbers of common stock held by such holders on an as converted basis.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

NOTE 10: STOCK OPTIONS & WARRANTS**Stock Options**

In August 2013, the Company adopted the 2013 Stock Option Plan (the "Plan"). The Plan provides incentives to eligible employees, officers, and directors in the form of incentive stock options, non-qualified stock options and restricted stock awards. During the six months ended June 30, 2018 the Company increased the shares available for common stock issuance under the Plan by 150,000. As of June 30, 2019, the Company reserved a total of 400,000 shares of common stock for issuance under the Plan. Of these shares, 80,321 shares are available for future stock option grants as of June 30, 2019.

During the six months ended June 30, 2019, the Company issued 26,500 stock options and 2,000 stock options were exercised.

As of June 30, 2019, there was approximately \$595,330 of total unrecognized compensation cost related to stock option arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 2.3 years.

During the six months ended June 30, 2018, the Company issued 36,750 stock options and 1,249 stock options were exercised.

As of June 30, 2018, there was approximately \$290,600 of total unrecognized compensation cost related to stock option arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 2.2 years.

The Company recorded \$0 and \$9,950 in non-employee and \$74,634 and \$127,000 in employee share-based compensation expense during 2019 and 2018, respectively.

Warrants

The Company issued 7,500 warrants during the six months ended June 30, 2019, for the purchase of common stock. The warrants are exercisable immediately at \$2.40 with a contractual term of ten years. The warrants were issued in conjunction with the Note. The warrants were recorded for \$101,615 as a debt discount to "Long-term notes payable" and corresponding increase in "Additional paid-in capital" and \$88,235 was amortized to interest expense in the six months ended June 30, 2019.

The Company issued 8,000 warrants during the six months ended June 30, 2018, for the purchase of common stock. The warrants are exercisable immediately at \$2.40 with a contractual term of ten years. The warrants were issued in conjunction with the Note. The warrants were recorded for \$54,500 as a debt discount to "Long-term notes payable" and corresponding increase in "Additional paid-in capital" and \$15,500 was amortized to interest expense in the six months ended June 30, 2018.

None of the warrants have been exercised as of June 30, 2019.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

NOTE 11: INCOME TAXES

The Company has incurred net operating losses since inception and is forecasting additional losses through December 31, 2019. Therefore, no United States federal, state, or foreign income taxes are expected for 2019 and none have been recorded as of June 30, 2019.

Due to the Company's history of losses since inception, there is not enough evidence at this time to support the conclusion that it will generate future income of a sufficient amount and nature to utilize the benefits of the Company's net deferred tax assets. Accordingly, the Company fully reduced its net deferred tax assets by a valuation allowance, since it has been determined that it is more likely than not that all of the deferred tax assets will not be realized.

On December 22, 2017, the United States enacted new tax reform legislation which reduced the corporate tax rate to 21% effective for the tax year beginning January 1, 2018. Under Accounting Standards Codification 740, the effects of new tax legislation are recognized in the period which includes the enactment date. As a result, the deferred tax assets and liabilities existing on the enactment date must be revalued to reflect the rate at which these deferred balances will reverse. The corresponding adjustment would generally affect the income tax expense (benefit) shown on the Condensed Consolidated Statements of Operations. However, since the Company has a full valuation allowance applied against its deferred tax asset, there is no impact to the income tax expense for the six months ended June 30, 2019.

NOTE 12: RELATED PARTY TRANSACTIONS**ISB Development Corp.**

The Company's Note holder, ISB Development Corp, is owned and operated by a director of the Company. In January 2017, the Company's Board of Directors approved the execution of the promissory note and security agreement (the "Note") and subsequent amendments. See Note 8 for further discussion and disclosure associated with the Note.

NOTE 13: SUBSEQUENT EVENTS

As of July 31, 2019, the Company has closed on approximately \$3,000,000 on the 2019 Common Stock Offering.

On August 8, 2019, the Company and ACM Alamosa DA LLC amended the Revolver to increase the Revolving Credit Commitments thereunder from \$5,500,000 to \$8,500,000.

Subsequent events were evaluated through September 20, 2019, the date the Condensed Consolidated Financial Statements were available to be issued.

**GROUND FLOOR FINANCE INC.
AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2018 and 2017

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

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December 31, 2018 and 2017

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Independent Auditors' Report

The Board of Directors
Groundfloor Finance Inc. and Subsidiaries
Atlanta, Georgia

We have audited the accompanying consolidated financial statements of Groundfloor Finance Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, stockholders' (deficit) 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.

Auditors' 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 auditors' 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 Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Uncertainty Regarding Going Concern

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred losses and cash outflows from operations since its inception. Those conditions raise substantial doubt about its ability to continue as a going concern as of December 31, 2018. Management's plans regarding those matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

/s/ Hughes Pittman & Gupton, LLP

Raleigh, North Carolina
March 21, 2019

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31,	
	2018	2017
Assets		
Current assets:		
Cash	\$ 1,069,392	\$ 1,354,170
Loans to developers, net	38,761,717	18,899,485
Interest receivable on loans to developers	1,821,073	1,354,533
Other current assets	484,391	344,768
Total current assets	<u>42,136,573</u>	<u>21,952,956</u>
Property, equipment, software, website, and intangible assets, net	813,104	481,047
Other assets	63,906	-
Total assets	<u>\$ 43,013,583</u>	<u>\$ 22,434,003</u>
Liabilities and Stockholders' (Deficit) Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,493,158	\$ 1,850,157
Accrued interest on limited recourse obligations	1,372,474	1,133,008
Limited recourse obligations, net	31,719,205	15,925,524
Revolving credit facility	5,493,605	3,000,179
Convertible notes	1,800,000	2,050,000
Short-term notes payable	2,925,082	-
Total current liabilities	<u>45,803,524</u>	<u>23,958,868</u>
Other liabilities	60,765	-
Long-term notes payable	-	1,699,259
Total liabilities	<u>45,864,289</u>	<u>25,658,127</u>
Commitments and contingencies (See Note 14)		
Stockholders' (deficit) equity:		
Common stock, no par, 5,000,000 shares authorized, 1,732,585 and 1,136,406 issued and outstanding	6,125,264	56,834
Series A convertible preferred stock, no par, 747,385 shares designated, 747,373 shares issued and outstanding (liquidation preference of \$4,999,925)	4,962,435	4,962,435
Series seed convertible preferred stock, no par, 568,796 shares designated, issued and outstanding (liquidation preference of \$2,960,583)	2,609,091	2,609,091
Additional paid-in capital	1,083,572	677,929
Accumulated deficit	(17,630,508)	(11,529,853)
Stock subscription receivable	(560)	(560)
Total stockholders' (deficit) equity	<u>(2,850,706)</u>	<u>(3,224,124)</u>
Total liabilities and stockholders' (deficit) equity	<u>\$ 43,013,583</u>	<u>\$ 22,434,003</u>

See accompanying notes to consolidated financial statements

GROUNDLOOR FINANCE INC. AND SUBSIDIARIES

Consolidated Statements of Operations

	Year Ended December 31,	
	2018	2017
Non-interest revenue:		
Origination fees	\$ 1,183,583	\$ 871,771
Loan servicing revenue	988,203	509,939
Total non-interest revenue	<u>2,171,786</u>	<u>1,381,710</u>
Net interest income:		
Interest income	3,178,629	2,287,701
Interest expense	<u>(2,460,454)</u>	<u>(1,921,693)</u>
Net interest income	<u>718,175</u>	<u>366,008</u>
Net revenue	2,889,961	1,747,718
Cost of revenue	<u>(423,776)</u>	<u>(251,431)</u>
Gross profit	2,466,185	1,496,287
Operating expenses:		
General and administrative	1,736,515	1,102,137
Sales and customer support	2,456,875	1,316,356
Development	1,006,840	658,844
Regulatory	193,538	457,844
Marketing and promotions	<u>2,169,567</u>	<u>1,338,635</u>
Total operating expenses	<u>7,563,335</u>	<u>4,873,816</u>
Loss from operations	<u>(5,097,150)</u>	<u>(3,377,529)</u>
Interest expense	1,003,505	707,956
Net loss	<u>\$ (6,100,655)</u>	<u>\$ (4,085,485)</u>

See accompanying notes to consolidated financial statements

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' (Deficit) Equity

	Series A Convertible Preferred Stock		Series Seed Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Stock Subscription Receivable	Total Stockholders' (Deficit) Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Stockholders' equity as of December 31, 2016	747,373	\$ 4,962,435	568,796	\$ 2,609,091	1,131,070	\$ 51,656	\$ 497,866	\$ (7,444,368)	\$ (560)	\$ 676,120
Exercise of stock options	-	-	-	-	5,336	5,178	-	-	-	5,178
Share-based compensation expense	-	-	-	-	-	-	180,063	-	-	180,063
Net loss	-	-	-	-	-	-	-	(4,085,485)	-	(4,085,485)
Stockholders' deficit as of December 31, 2017	<u>747,373</u>	<u>\$ 4,962,435</u>	<u>568,796</u>	<u>\$ 2,609,091</u>	<u>1,136,406</u>	<u>\$ 56,834</u>	<u>\$ 677,929</u>	<u>\$ (11,529,853)</u>	<u>\$ (560)</u>	<u>\$ (3,224,124)</u>
Shares issued in the 2018 Common Stock Offering, net of offering costs	-	-	-	-	468,764	4,562,634	-	-	-	4,562,634
Shares issued in a private placement	-	-	-	-	125,000	1,500,000	-	-	-	1,500,000
Exercise of stock options	-	-	-	-	2,415	5,796	-	-	-	5,796
Share-based compensation expense and warrants	-	-	-	-	-	-	405,643	-	-	405,643
Net loss	-	-	-	-	-	-	-	(6,100,655)	-	(6,100,655)
Stockholders' deficit as of December 31, 2018	<u>747,373</u>	<u>\$ 4,962,435</u>	<u>568,796</u>	<u>\$ 2,609,091</u>	<u>1,732,585</u>	<u>\$ 6,125,264</u>	<u>\$ 1,083,572</u>	<u>\$ (17,630,508)</u>	<u>\$ (560)</u>	<u>\$ (2,850,706)</u>

See accompanying notes to consolidated financial statements

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2018	2017
Cash flows from operating activities		
Net loss	\$ (6,100,655)	\$ (4,085,485)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	375,532	231,111
Share-based compensation	281,143	160,063
Noncash interest expense	73,388	69,676
Loss (gain) on sale of real estate owned	7,963	-
Origination of loans held for sale	(672,491)	(3,151,503)
Proceeds from sales of loans held for sale	672,491	3,151,503
Conversion of beneficial interests	181,347	-
Changes in operating assets and liabilities:		
Other current assets	41,492	7,058
Interest receivable on loans to developers	(3,161,729)	(689,160)
Accounts payable and accrued expenses	731,383	894,862
Accrued interest on limited recourse obligations	2,439,597	526,449
Net cash used in operating activities	<u>(5,130,539)</u>	<u>(2,885,426)</u>
Cash flows from investing activities		
Loan payments to developers	(45,914,339)	(25,104,481)
Repayments of loans from developers	26,131,470	18,620,453
Proceeds from sale of properties held for sale	1,818,857	-
Purchases of computer equipment and furniture and fixtures	(220,489)	(20,299)
Payments of software and website development costs	(487,100)	(292,052)
Net cash used in investing activities	<u>(18,671,601)</u>	<u>(6,796,379)</u>
Cash flows from financing activities		
Proceeds from limited recourse obligations	43,135,416	28,032,146
Repayments of limited recourse obligations	(28,997,881)	(21,197,033)
Payment of deferred financing costs	(10,000)	(65,000)
Borrowings from the revolving credit facility	37,369,522	23,876,708
Repayments on the revolving credit facility	(34,870,261)	(23,627,941)
Proceeds from GROUND FLOOR Notes	1,801,200	-
Repayments from GROUND FLOOR Notes	(520,100)	-
Proceeds from issuance of shares in the 2018 Common Stock Offering, less offering costs	4,103,670	-
Proceeds from issuance of shares in a private placement	1,500,000	-
Exercise of stock options	5,796	5,178
Proceeds from issuance of restated subordinate convertible notes	-	2,050,000
Proceeds from issuance of shareholder loan	-	2,000,000
Repayments of shareholder loan	-	(250,000)
Net cash provided by financing activities	<u>23,517,362</u>	<u>10,824,058</u>
Net increase (decrease) in cash	<u>(284,778)</u>	<u>1,142,253</u>
Cash as of beginning of the period	<u>1,354,170</u>	<u>211,917</u>
Cash as of end of the period	<u>\$ 1,069,392</u>	<u>\$ 1,354,170</u>
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 650,528	\$ 509,908

GROUNDLOOR FINANCE INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2018	2017
Supplemental disclosure of noncash investing and financing activities:		
Loans to developers transferred to other real estate owned	\$ 2,071,840	\$ 234,825
Write-down (recovery) of loans to developers, net and limited recourse obligations, net	438,660	44,015
Write-down (recovery) of interest receivable on loans to developers and accrued interest on limited recourse obligations	195,240	42,759
Conversion of convertible notes payable and accrued interest converted into common stock	277,617	-
Reduction to allowance for loan to developers and limited recourse obligations	90,000	60,000
Issued warrants in connection with the note payable	124,500	20,000

See accompanying notes to consolidated financial statements

GROUNDFLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Description of Business**

The terms "we," "our," or the "Company" refer to Groundfloor Finance Inc. and its subsidiaries. The Company was originally organized as a North Carolina limited liability company under the name of Fomentum Labs LLC on January 28, 2013. Fomentum Labs LLC changed their name to Groundfloor LLC on April 26, 2013, and converted into a North Carolina corporation on July 26, 2013. In connection with this conversion, all equity interests in Groundfloor LLC were converted into shares of GROUND FLOOR Inc.'s common stock. In August 2014, GROUND FLOOR Inc. converted into a Georgia corporation and changed their name to Groundfloor Finance Inc. The accounting effects of these conversions are reflected retrospectively in the Consolidated Financial Statements. Groundfloor Holdings GA, LLC is the holder of the Revolver, as defined in Note 7. Groundfloor Properties GA LLC was created for the purpose of financing real estate in Georgia. Groundfloor Real Estate 1 LLC was created for the purpose of financing real estate in nine states. Groundfloor Real Estate 2 LLC was created for the purpose of financing real estate in nine states. Groundfloor Real Estate, LLC is currently inactive and management does not have plans to use this entity in the near future.

The Company has developed an online investment platform designed to crowdsource financing for real estate development projects (the "Projects"). With this online investment platform (the "Platform"), public investors (the "Investors") are able to choose between multiple Projects, and real estate developers (the "Developers") of the Projects are able to obtain financing. GROUND FLOOR's financing model replaces traditional sources of financing for Projects with the aggregation of capital from Investors using the internet.

GROUND FLOOR formed Groundfloor Properties GA LLC ("Groundfloor GA") in August 2013 for the purpose of issuing nonrecourse promissory notes ("Georgia Notes") corresponding to commercial real estate loans entered into by Groundfloor GA to residents of Georgia. Groundfloor GA began offering these investment opportunities to residents of Georgia through the Platform in November 2013.

Following the qualification of the Company's first offering statement on Form 1-A on August 31, 2015, the Company began a multistate offering of limited recourse obligations ("LROs") to Investors corresponding to commercial loans for real estate development projects financed by the Company. The Company does not intend to issue any additional Georgia Notes.

The Company believes this method of real estate financing has many advantages including reduced Project origination costs, lower interest rates for Developers, and attractive returns for Investors.

Basis of Presentation and Liquidity

The Company's Consolidated Financial Statements include Groundfloor Finance Inc. and its wholly owned subsidiaries, Groundfloor Properties GA LLC; Groundfloor Real Estate, LLC; Groundfloor Holdings GA, LLC; Groundfloor Real Estate 1 LLC; and Groundfloor Real Estate 2, LLC (collectively the "Company" or "GROUND FLOOR"). Intercompany transactions and balances have been eliminated upon consolidation.

The Company's Consolidated Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities and commitments in the normal course of business.

Operations since inception have consisted primarily of organizing the Company, developing the technology, and securing financing. The accompanying Consolidated Financial Statements have been prepared on a basis which assumes that the Company will continue as a going concern. The Company has incurred losses and cash outflows from operations since its inception. The ultimate success of the Company is dependent on management's ability to develop and market its products and services at levels sufficient to generate operating revenues in excess of expenses.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management evaluated the condition of the Company and has determined that until such sales levels can be achieved, management will need to secure additional capital to continue growing working capital and fund product development and operations.

Management intends to raise additional debt or equity financing to grow working capital and fund operations. Management believes the Company will obtain additional funding from current and new Investors in order to sustain operations. However, there are no assurances that the Company can be successful in obtaining the additional capital or that such financing will be on terms favorable or acceptable to the Company.

As of issuance date, the Company closed on approximately \$1,500,000 in equity financing, see Note 15, "Subsequent Events."

There is substantial doubt that the Company will continue as a going concern for at least 12 months following the date these Consolidated Financial Statements are issued, without additional financing based on the Company's limited operating history and recurring operating losses.

The Consolidated Financial Statements do not include any adjustments that might result from the outcome of the uncertainties described in the Consolidated Financial Statements. In addition, the Consolidated Financial Statements do not include any adjustments relating to the recoverability and classification of assets nor the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

Use of Estimates

The preparation of Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenue primarily results from fees earned on the loans to the Developers (the "Loans"). Fees include "Origination fees" and "Loan servicing revenue" which are paid by the Developers.

Origination Fees

"Origination fees" are paid by the Developers for the work performed to facilitate the Loans. The amount to be charged is a percentage based upon the terms of the Loan, including grade, rate, term, and other factors. Origination fees range from 1.0% to 5.0% of the principal amount of a Loan. The origination fee is paid when the Loan is issued to the Developer and deducted from the gross proceeds distributed. A Loan is considered issued when the funds are transferred to the Developer's account, which occurs through an Electronic Funds Transfer ("EFT").

The origination fees are recognized as revenue ratably over the term of the Loan, while direct costs to originate Loans are recorded as expenses as incurred.

Loan Servicing Revenue

The loan servicing revenue is recognized by the Company, upon recovery, for costs incurred in servicing the Developer's Loan, including managing payments to and from Developers and payments to Investors. The Company records loan servicing revenue as a component of revenue when collected.

GROUNDLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Whole Loan Sales**

Under loan sale agreements, the Company sells all of its rights, title, and interest in certain loans. At the time of such sales, the Company simultaneously enters into loan servicing agreements under which it acquires the right to service the loans. The Company calculates a gain or loss on the whole loan sale, based on the net proceeds from the whole loan sale, minus the net investment in the loans being sold. All origination fees incurred in the origination process are recognized directly to Consolidated Statements of Operations and recorded to "Origination fees".

Interest Income on Loans to Developers and Interest Expense on Limited Recourse Obligations

The Company recognizes "Interest income" on Loans and "Interest expense" on the corresponding Investor Georgia Notes (if issued by Groundfloor GA) or LROs (if issued by Groundfloor Finance Inc.) using the accrual method based on the stated interest rate to the extent the Company believes it to be collectable. For the purposes of these Consolidated Financial Statements, "Limited recourse obligations, net" refers to both Georgia Notes and LROs. Georgia Notes are securities that the Company has issued through its previously registered Georgia-exclusive securities offering, which has since been terminated. LROs are the Company's currently registered securities. Both Georgia Notes and LROs represent similar obligations to the Company.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company had no cash equivalents as of December 31, 2018 and 2017. From time to time, the Company could maintain cash deposits in excess of federally insured limits. The Company believes credit risk related to its cash and cash equivalents to be minimal.

Each investor's escrow account receives Federal Deposit Insurance Corporation ("FDIC") insurance coverage on cash balances subject to normal FDIC coverage rules. Investor funds, whether committed through a LRO or held in escrow, are not included as a part of the Company's cash balance.

Loans to Developers and Limited Recourse Obligations

"Loans to developers, net" and the corresponding "Limited recourse obligations, net", used to fund the Loans are originally recorded at outstanding principal. The interest rate associated with a Loan is the same as the interest rate associated with the corresponding Georgia Notes or LROs.

The Company's obligation to pay principal and interest on a Georgia Note or LRO is equal to the pro rata portion of the total principal and interest payments collected from the corresponding Loan. The Company obtains a lien against the property being financed and attempts reasonable collection efforts upon the default of a Loan. The Company is not responsible for repaying "Limited recourse obligations, net" associated with uncollectable "Loans to developers, net". Amounts collected related to a Loan default are returned to the Investors based on their pro rata portion of the corresponding Georgia Notes or LROs, if applicable, less collection costs incurred by the Company.

The Investors may remit funds through the Company's online portal prior to the actual Loan being closed. These funds are held in an escrow account controlled by a major bank and are not recognized as a LRO until the Loan is closed and funds are transferred to the Developer, which occurs through an EFT transaction. Each Investor escrow account receives FDIC insurance coverage on cash balances subject to normal FDIC coverage rules.

The Loan and corresponding LROs are recorded on the Company's Consolidated Balance Sheets to "Loans to developers, net" and "Limited recourse obligations, net", respectively, once the Loan has closed. Loans are considered closed after the promissory note for that Loan has been signed and the security interest has been perfected.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Nonaccrual and Past Due Loans**

“Interest income” is accrued on the outstanding principal balance. The accrual of interest on “Loans to developers, net” and corresponding “Limited recourse obligations, net” is discontinued when, in management’s opinion, the borrower may be unable to make payments as they become due, unless the Loan is well secured and in the process of collection. “Interest income” and “Interest expense” on the “Loans to developers, net” and the corresponding “Limited recourse obligations, net” are discontinued and placed on nonaccrual status at the time the Loan is 90 days delinquent unless the Loan is well secured and in process of collection. The “Loans to developers, net” and corresponding “Limited recourse obligations, net” are charged off to the extent principal or interest is deemed uncollectible. Non-accrual Loans and Loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. All interest accrued, but not collected for “Loans to developers, net” and “Limited recourse obligations, net” that are placed on nonaccrual or charged off, is reversed against “Interest income” and the corresponding LROs recorded “Interest expense”.

Interest income collected on nonaccrual Loans is applied against principal until the Loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans include Loans on nonaccrual status. When determining if the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Company considers the borrower’s capacity to pay, which includes such factors as the borrower’s current financial position, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as collateral value and guarantor support. The Company individually assesses for impairment all nonaccrual Loans and all Loans in fundamental default. If a Loan is deemed impaired, a specific valuation allowance is allocated, if necessary, so that the Loan is reported net, at the present value of estimated future cash flows using the Loan’s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis.

Allowance for Uncollectable Loans and Undeliverable Limited Recourse Obligations

Payments to holders of Georgia Notes or LROs, as applicable, depend on the payments received on the corresponding Loans; a reduction or increase of the expected future payments on Loans will decrease or increase the reserve for the associated Georgia Notes or LROs. The Company recognizes a reserve for uncollectable Loans and corresponding reserve for undeliverable Georgia Notes or LROs in an amount equal to the estimated probable losses net of recoveries. The allowance is based on management’s estimates and analysis of historical bad debt experience, existing economic conditions, current loan aging schedules, and expected future write-offs, as well as an assessment of specific, identifiable Developer accounts considered at risk or uncollectible. Expected losses and actual charge-offs on Loans are offset to the extent that the Loans are financed by Georgia Notes or LROs, as applicable, that effectively absorb the related Loan losses.

“Loans to developers, net” are presented net of a reserve for doubtful accounts of \$500,000 and \$640,000 as of December 31, 2018 and 2017, respectively. “Limited recourse obligations, net” are presented net of a reserve for doubtful accounts of \$500,000 and \$590,000 as of December 31, 2018 and 2017, respectively. As of December 31, 2017, \$50,000 of the reserve for doubtful accounts is attributed to Loans funded directly by the Company, which have not been funded by Investors.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Other Real Estate Owned**

Foreclosed assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less estimated cost to sell. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Costs of improvements are capitalized up to the fair value of the property, whereas costs relating to holding foreclosed assets and subsequent adjustments to the value are charged to operations.

Software and Website Development Costs

Internal use software and website development costs are capitalized when preliminary development efforts are successfully completed, it is probable that the project will be completed and the software will be used as intended. Internal use software and website development costs are amortized on a straight-line basis over the project's estimated useful life, which is generally three years. Capitalized internal use software development costs consist of employee compensation and fees paid to third-party consultants who are directly involved in development efforts. Costs related to preliminary project activities and post implementation activities, including training and maintenance, are expensed as incurred. Costs incurred for upgrades and enhancements that are considered to be probable to result in additional functionality are capitalized. Development costs of the Company's website incurred in the preliminary stages of development are expensed as incurred. Once preliminary development efforts are successfully completed, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use.

Property and Equipment

Property and equipment consists of computer equipment, furniture and fixtures, and office equipment. Property and equipment is stated at historical cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of the life of the lease or the useful life of the improvements. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts, and any resulting gain or loss is credited or charged to income. Repairs and maintenance costs are expensed as incurred.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation is computed using the following estimated useful lives:

Computer equipment	3 years
Software and website development costs	3 years
Office equipment	5 years
Furniture and fixtures	5 years

Impairment of Long-Lived Assets

Long-lived assets, such as computer equipment, office equipment, furniture and fixtures, intangible assets, and software and website development costs, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized for an amount by which the carrying amount of the asset exceeds the fair value of the asset.

Intangible Assets

Intangible assets consist of acquired domain names. The Company recognized \$2,000 in amortization expense during the years ended December 31, 2018 and 2017. Intangible assets are being amortized over a 15-year period, their estimated useful lives, on a straight-line basis.

Equity Offering Costs

The Company accounts for offering costs in accordance with Accounting Standard Codification (“ASC”), ASC 340, *Other Assets and Deferred Costs*. Prior to the completion of an offering, offering costs will be capitalized as deferred offering costs on the balance sheet. The deferred offering costs will be charged to stockholders’ equity upon the completion of an offering or to expense if the offering is not completed. As of December 31, 2018, offering costs of \$125,000 for the 2018 Common Stock Offering have been charged to stockholders’ equity.

Deferred Revenue

Deferred revenue consists of origination fee payments received in advance of revenue recognized.

Advertising Costs

The cost of advertising is expensed as incurred and presented within “Marketing and promotions” expenses in the Consolidated Statements of Operations. The Company incurred \$700,000 and \$476,000 in advertising costs during the years ended December 31, 2018 and 2017, respectively.

Rent Expense

The Company recognizes rent expense on a straight-line basis over the term of the lease. The difference between rent expense and rent paid is recorded as deferred rent in the Consolidated Balance Sheets. Rent expense is presented within “General and administrative” expenses in the Consolidated Statements of Operations. The Company incurred \$139,445 and \$66,000 in rent expense for office facilities during the years ended December 31, 2018 and 2017, respectively.

Share-Based Compensation

The Company accounts for share-based compensation using the fair value method of accounting which requires all such compensation to employees and nonemployees, including the grant of employee stock options or warrants, to be recognized in the Consolidated Statements of Operations based on its fair value at the measurement date. The expense associated with share-based compensation is recognized on a straight-line basis over the service period of each award.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)**Income Taxes**

Deferred tax assets and liabilities are determined based on the temporary differences between the Consolidated Financial Statements carrying amounts and the tax basis of assets and liabilities using the enacted tax rates in effect in the years in which the differences are expected to reverse. In estimating future tax consequences, all expected future events are considered other than enactment of changes in the tax law or rates.

The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the Consolidated Financial Statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

The determination of recording or releasing income tax valuation allowance is made, in part, pursuant to an assessment performed by management regarding the likelihood that the Company will generate future taxable income against which benefits of its deferred tax assets may or may not be realized. This assessment requires management to exercise significant judgment and make estimates with respect to its ability to generate taxable income in future periods.

Reclassification

Certain amounts in the December 31, 2017, Consolidated Financial Statements have been reclassified to conform to the December 31, 2018, presentation. These reclassifications had no effect on the year ended December 31, 2017, net loss, or December 31, 2017, accumulated deficit.

NOTE 2: 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”), which will be effective January 1, 2019, for the Company. The Company had the option to early adopt the ASU as of January 1, 2017. The guidance clarifies that revenue from contracts with customers should be recognized in a manner that depicts both the likelihood of payment and the timing of the related transfer of goods or performance of services. In March 2016, the FASB issued an amendment ASU 2016-12, *Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* to the new revenue recognition guidance clarifying how to determine if an entity is a principal or agent in a transaction. In April 2016 ASU 2016-10, *Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing* and May 2016 ASU 2016-12, *Revenue from Contracts with Customers: Scope Improvements and Practical Expedients*, the FASB further amended the guidance to include performance obligation identification, licensing implementation, collectability assessment and other presentation and transition clarifications. The effective date and transition requirements for the amendments is the same as for ASU 2014-09. The Company is currently evaluating the impact of this accounting standard update on its Consolidated Financial Statements.

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”), which will be effective for the Company on January 1, 2019. The amendment changes the accounting for equity investments, changes disclosure requirements related to instruments at amortized cost and fair value, and clarifies how entities should evaluate deferred tax assets for securities classified as available for sale. Affected entities should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The Company is evaluating the impact that ASU 2016-01 will have on its Consolidated Financial Statements.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 2: RECENT ACCOUNTING PRONOUNCEMENTS (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), which requires lessees to recognize most leases on the balance sheet as a lease liability and corresponding right-of-use asset. The guidance is currently effective for the Company for the year ending December 31, 2020. The Company is currently evaluating the effect of this guidance on the Company’s Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-06, *Derivatives and Hedging – Contingent Put and Call Options in Debt Instruments* (“ASU 2016-06”), which the Company has adopted as of December 31, 2017. The guidance clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendment is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The adoption of this amendment did not have a material effect on the Company’s Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”). Several aspects of the accounting for share-based payment award transactions are simplified, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; (c) forfeitures; and (d) classification on the Consolidated Statements of Cash Flows. The amendments are effective for nonpublic companies for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted for any interim or annual period. The Company adopted this guidance in the year ended December 31, 2017. The adoption of this standard did not have a material impact on the Company’s Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace the current incurred loss approach with an expected loss model, referred to as the current expected credit loss (“CECL”) model. The new standard will apply to financial assets subject to credit losses and measured at amortized cost and certain off-balance-sheet credit exposures, which include, but are not limited to, loans, leases, held-to-maturity securities, loan commitments and financial guarantees. ASU 2016-13 simplifies the accounting for purchased credit-impaired debt securities and loans and expands the disclosure requirements regarding an entity’s assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2020. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Upon adoption, ASU 2016-13 provides for a modified retrospective transition by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is effective. The Company is currently evaluating the impact this standard will have on the Company’s Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”) and in November 2016 issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (“ASU 2016-18”). The ASUs will be effective January 1, 2019, and amend the existing accounting standards for the statement of cash flows. The amendments provide guidance on the following nine cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; separately identifiable cash flows and application of the predominance principle; and restricted cash. Early adoption is permitted, including adoption in an interim period. The Company is evaluating the impact that these standards will have on the Consolidated Statements of Cash Flows. However, the impact will depend on the facts and circumstances at the time of adoption of the new standards.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 2: RECENT ACCOUNTING PRONOUNCEMENTS (concluded)

In May 2017, the FASB issued ASU 2017-09 *Stock Compensation (Topic 718) – Scope of Modification Accounting* (“ASU 2017-09”), which the Company has adopted as of December 31, 2017. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The adoption of this amendment did not have a material effect on the Company’s Consolidated Financial Statements.

In June 2018, the FASB issued ASU 2018-07, *Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting* (“ASU 2018-07”). ASU 2018-07 expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The standard is effective for the Company for the year ending December 31, 2019, with early adoption permitted. The Company is currently evaluating the impact that the implementation of this standard will have on the Company’s Consolidated Financial Statements

NOTE 3: LOANS TO DEVELOPERS, NET

The Company provides financing to borrowers for real estate-related loans. Real estate loans include loans for unoccupied single family or multifamily renovations costing between \$20,000 and \$2,000,000 over six months to a year.

The following table presents the carrying amount of “Loans to developers, net” by letter grade and performance state as of December 31, 2018 and 2017, respectively:

	<u>Current</u>	<u>Workout</u>	<u>Fundamental Default</u>	<u>Total</u>
Loan grades:				
A	\$ 3,267,744	\$ 293,473	\$ -	\$ 3,561,217
B	7,073,701	668,100	141,150	7,882,951
C	17,009,297	2,465,820	517,791	19,992,908
D	7,140,347	263,555	228,000	7,631,902
E	192,739	-	-	192,739
F	-	-	-	-
G	-	-	-	-
Carrying amount as of December 31, 2018	<u>\$ 34,683,828</u>	<u>\$ 3,690,948</u>	<u>\$ 886,941</u>	<u>\$ 39,261,717</u>

	<u>Current</u>	<u>Workout</u>	<u>Fundamental Default</u>	<u>Total</u>
Loan grades:				
A	\$ 1,833,134	\$ 24,240	\$ -	\$ 1,857,374
B	3,835,133	514,180	54,986	4,404,299
C	8,072,685	1,519,531	230,188	9,822,404
D	2,192,073	906,191	357,144	3,455,408
E	-	-	-	-
F	-	-	-	-
G	-	-	-	-
Carrying amount as of December 31, 2017	<u>\$ 15,933,025</u>	<u>\$ 2,964,142</u>	<u>\$ 642,318</u>	<u>\$ 19,539,485</u>

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 3: LOANS TO DEVELOPERS, NET (continued)

Nonaccrual and Past Due Loans

A Loan is placed on nonaccrual status when, in management's judgment, the collection of the interest income appears doubtful. "Interest receivable on loans to developers" that has been accrued and is subsequently determined to have doubtful collectability is charged to "Interest income" and the corresponding "Accrued interest on limited recourse obligations" that has been accrued and is subsequently determined to have doubtful collectability is charged to "Interest expense". Interest income on Loans that are classified as nonaccrual is subsequently applied to principal until the Loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Past due Loans are loans whose principal or interest is past due 30 days or more. As of December 31, 2018, the Company placed Loans of \$3,033,000 recorded to "Loans to developers, net" on nonaccrual status.

The following table presents an analysis of past due Loans as of December 31, 2018 and 2017:

	<u>Carrying Amount</u>	<u>Allowance for Loan Losses</u>	<u>Total</u>
Aging schedule:			
Current	\$ 35,112,798	\$ 40,000	\$ 35,072,798
Less than 90 days past due	2,404,830	50,000	2,354,830
More than 90 days past due	1,744,089	410,000	1,334,089
Total as of December 31, 2018	<u>\$ 39,261,717</u>	<u>\$ 500,000</u>	<u>\$ 38,761,717</u>
	<u>Carrying Amount</u>	<u>Allowance for Loan Losses</u>	<u>Total</u>
Aging schedule:			
Current	\$ 15,753,075	\$ 57,000	\$ 15,696,075
Less than 90 days past due	2,292,122	59,000	2,233,122
More than 90 days past due	1,494,288	524,000	970,288
Total as of December 31, 2017	<u>\$ 19,539,485</u>	<u>\$ 640,000</u>	<u>\$ 18,899,485</u>

Impaired Loans

The following is a summary of information pertaining to impaired loans as of December 31, 2018:

	<u>Balance</u>
Nonaccrual loans	\$ 2,146,000
Fundamental default not included above	887,000
Total impaired loans	<u>3,033,000</u>
Interest income recognized on impaired loans	<u>\$ 400,000</u>

The following table presents an analysis of information pertaining to impaired loans as of December 31, 2018:

	<u>Balance</u>
Principal loan balance	\$ 3,495,120
Recorded investment with no allowance	2,146,000
Recorded investment with allowance	887,000
Total recorded investment	<u>\$ 3,033,000</u>
Related allowance	500,000
Average recorded investment	\$ 230,000

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 3: LOANS TO DEVELOPERS, NET (continued)

The following is a summary of information pertaining to impaired loans as of December 31, 2017:

	<u>Balance</u>
Nonaccrual loans	\$ 1,500,000
Fundamental default not included above	640,000
Total impaired loans	<u>2,140,000</u>
Interest income recognized on impaired loans	<u>\$ 262,438</u>

The following table presents an analysis of information pertaining to impaired loans as of December 31, 2017:

	<u>Balance</u>
Principal loan balance	\$ 2,423,540
Recorded investment with no allowance	640,000
Recorded investment with allowance	1,500,000
Total recorded investment	<u>\$ 2,140,000</u>
Related allowance	640,000
Average recorded investment	\$ 153,000

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 3: LOANS TO DEVELOPERS, NET (continued)**Credit Quality Monitoring**

The Company uses three performance states to better monitor the credit quality of outstanding loans. Outstanding loans are characterized as follows:

Current - This status indicates that no events of default have occurred, all payment obligations have been met or none are yet triggered.

Workout - This status indicates there has been one or more payment defaults on the Loan and the Company has negotiated a modification of the original terms that does not amount to a fundamental default.

Fundamental Default - This status indicates a Loan has defaulted and there is a chance the Company will not be able to collect 100% of the principal amount of the Loan by the extended payment date of the corresponding Georgia Notes or LROs. The Company has commenced a formal foreclosure process to secure the real estate property.

The following table presents "Loans to developers, net" by performance state as of December 31, 2018 and 2017:

	Carrying Amount	Allowance for Loan Losses	Loans to Developers, Net
Performance states:			
Current	\$ 34,683,828	\$ -	\$ 34,683,828
Workout	3,690,948	100,000	3,590,948
Fundamental default	886,941	400,000	486,941
Total as of December 31, 2018	<u>\$ 39,261,717</u>	<u>\$ 500,000</u>	<u>\$ 38,761,717</u>
	Carrying Amount	Allowance for Loan Losses	Loans to Developers, Net
Performance states:			
Current	\$ 15,933,025	\$ -	\$ 15,933,025
Workout	2,964,142	330,000	2,634,142
Fundamental default	642,318	310,000	332,318
Total as of December 31, 2017	<u>\$ 19,539,485</u>	<u>\$ 640,000</u>	<u>\$ 18,899,485</u>

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 3: LOANS TO DEVELOPERS, NET (concluded)**Allowance for Loan Losses**

The following table details activity in the allowance for loan losses for the years ended December 31, 2018 and 2017:

	Balance
Balance, December 31, 2017	\$ 640,000
Allowance for loan loss	240,000
Loans charged off	(380,000)
Outstanding as of December 31, 2018	<u>\$ 500,000</u>
Period-end amount allocated to:	
Loans individually evaluated for impairment	\$ 400,000
Loans collectively evaluated for impairment	100,000
Balance, December 31, 2018	<u>\$ 500,000</u>
Loans:	
Individually evaluated for impairment	\$ 887,000
Collectively evaluated for impairment	2,146,000
Balance, December 31, 2018	<u>\$ 3,033,000</u>
	Balance
Balance, December 31, 2016	\$ 700,000
Allowance for loan loss	140,000
Loans charged off	(200,000)
Outstanding as of December 31, 2017	<u>\$ 640,000</u>
Period-end amount allocated to:	
Loans individually evaluated for impairment	\$ 310,000
Loans collectively evaluated for impairment	330,000
Balance, December 31, 2017	<u>\$ 640,000</u>
Loans:	
Individually evaluated for impairment	\$ 640,000
Collectively evaluated for impairment	1,500,000
Balance, December 31, 2017	<u>\$ 2,140,000</u>

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 4: OTHER CURRENT ASSETS

“Other current assets” at December 31, 2018 and 2017, consists of the following:

	2018	2017
Other real estate owned (1)	\$ 418,379	\$ 234,825
Unbilled servicing revenue	25,127	72,026
Prepaid expenses	21,300	-
Other	19,585	37,917
Other current assets	<u>\$ 484,391</u>	<u>\$ 344,768</u>

(1) During the year ended December 31, 2018 the Company transferred \$2,071,840 from “Loans to developers, net” to “Other current assets”. Other real estate owned met the held for sale criteria and have been recorded at the lower of carrying amount or fair value less cost to sell. There was no impact to the Company’s Consolidated Statements of Operation from this transfer. The Company recorded a decrease of \$439,000 to “Loans to developers, net” and an offsetting decrease to “Limited recourse obligations, net”.

NOTE 5: PROPERTY, EQUIPMENT, SOFTWARE, WEBSITE AND INTANGIBLE ASSETS, NET

“Property, equipment, software, website development costs, and intangible assets, net” at December 31, 2018 and 2017, consists of the following:

	2018	2017
Software and website development costs	\$ 1,304,993	\$ 817,893
Less: accumulated amortization	(725,255)	(396,466)
Software and website development costs, net	<u>\$ 579,738</u>	<u>\$ 421,427</u>
	2018	2017
Computer equipment	\$ 96,165	\$ 42,388
Leasehold improvements	12,530	12,530
Furniture and fixtures	134,548	11,090
Office equipment	45,548	2,294
Property and equipment	288,791	68,302
Less: accumulated depreciation and amortization	(79,925)	(35,182)
Property and equipment, net	<u>\$ 208,866</u>	<u>\$ 33,120</u>
	2018	2017
Domain names	\$ 30,000	\$ 30,000
Less: accumulated amortization	(5,500)	(3,500)
Intangible assets, net	<u>\$ 24,500</u>	<u>\$ 26,500</u>

Depreciation and amortization expense on “Property, equipment, intangible assets, software, and website development costs, net” for the years ended December 31, 2018 and 2017 was \$375,532 and \$231,111, respectively.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 6: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

“Accounts payable and accrued expenses” at December 31, 2018 and 2017, consists of the following:

	2018	2017
Trade accounts payable	\$ 762,148	\$ 834,785
Deferred revenue	867,950	333,067
Accrued interest expense	360,325	149,735
Accrued employee compensation	80,243	202,242
Accrued contractor compensation	-	184,569
Other	422,492	145,759
Accounts payable and accrued expenses	<u>\$ 2,493,158</u>	<u>\$ 1,850,157</u>

GROUNDLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 7: REVOLVING CREDIT FACILITY

On November 1, 2016, the Company's wholly owned subsidiary, Groundfloor Holdings GA, LLC, as borrower, entered into a revolving credit facility (the "Revolver") with Revolver Capital, LLC. The credit agreement provided for revolving loans up to a maximum aggregate principal amount of \$1,500,000. The Revolver will be used for bridge funding of underlying loans pending approval from the United States Securities and Exchange Commission ("SEC").

On November 11, 2016, the Company entered into a First Amendment to the Credit Agreement (the "First Amendment") which amended the existing Revolver dated November 1, 2016, among Groundfloor Holdings GA, LLC, as borrower, and Revolver Capital, LLC, as lender. Collateral security for the Revolver includes all property of the underlying loan, upon which a lien is created in favor of the lender. The First Amendment amended the Revolver to increase the Revolving Credit Commitments thereunder from \$1,500,000 to \$2,500,000. The other terms of the credit facility remain unchanged.

On December 21, 2016, the Company entered into a Second Amendment to the Credit Agreement (the "Second Amendment") which amended the existing Revolver dated November 1, 2016, among Groundfloor Holdings GA, LLC, as borrower, and Revolver Capital, LLC, as lender. The Second Amendment amended the Revolver to increase the Revolving Credit Commitments thereunder from \$2,500,000 to \$3,500,000. The other terms of the credit facility remain unchanged.

On April 7, 2017, the Company entered into a Third Amendment to the Credit Agreement (the "Third Amendment") which amended the existing credit agreement dated November 1, 2016, among Groundfloor Holdings GA, LLC, as borrower, and Revolver Capital, LLC, as lender. The Third Amendment amended the credit agreement to increase the Revolving Credit Commitments thereunder from \$3,500,000 to \$4,500,000. In connection with the Third Amendment the Company paid a \$10,000 commitment fee, which is capitalized and amortized over a twelve-month period. The other terms of the credit facility remain unchanged.

On April 4, 2018, the Credit Agreement dated as of November 1, 2016, as amended by the First Amendment as of November 11, 2016, the Second Amendment dated as of February 22, 2017 and the Third Amendment dated as of April 7, 2017, was assigned to ACM Alamosa DA LLC. The Company and the lender agreed to amend and restate the Original Credit Agreement in its entirety. The other terms of the credit facility remain unchanged.

On September 18, 2018, the Company increased the Revolving Credit Commitments thereunder from \$4,500,000 to \$5,500,000. In connection with the increase the Company paid a \$10,000 commitment fee, which is capitalized and amortized over a twelve-month period. The other terms of the credit facility remain unchanged.

The Revolver maturity date is April 4, 2019. The Company has the option to request and the lender may, in its sole discretion, elect to extend the maturity date.

As of December 31, 2018, the Company had \$0 of available borrowings and \$5,500,000 outstanding under the Revolver as presented within Revolving credit facility on the Consolidated Balance Sheets. As of December 31, 2018, the Company reflected \$6,667 of deferred financing costs related to the Revolver as a reduction to the Revolving credit facility in the Consolidated Balance Sheets. As of December 31, 2017, the Company reflected \$833 of deferred financing costs related to the Revolver as a reduction to the Revolving credit facility in the Consolidated Balance Sheets. Amortization of these costs was \$4,166 and \$45,000 for the years ended December 31, 2018 and 2017, respectively. Accrued interest on the Revolver, presented within "Accounts payable and accrued expenses" in the Company's Consolidated Balance Sheets, was \$111,288 and \$34,032 at December 31, 2018 and 2017, respectively.

The Revolver contains certain affirmative and negative covenants, including financial and other reporting requirements. The Company is in compliance with all such covenants at December 31, 2018.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 8: CONVERTIBLE NOTES

From March 2017 to May 2017, the Company issued subordinated convertible notes (the "Subordinated Convertible Notes") to Investors for total proceeds of \$825,000. The Subordinated Convertible Notes bear interest at the rate of 8% per annum. The outstanding principal and all accrued but unpaid interest was due and payable on the earlier of September 24, 2018, or the consummation of a sale of the Company by consolidation, merger, change of majority ownership, or sale or other disposition of all or substantially all of the assets of the Company (the "Maturity Date"). In the event of a closing of a preferred stock financing with gross proceeds of at least \$8,000,000 ("Qualified Preferred Financing") prior to the Maturity Date, the outstanding principal and all accrued but unpaid interest may be converted into shares of preferred stock issued in the financing at a price per share equal to 75% of the price per share of the Qualified Preferred Financing. In the event of a closing of a common stock financing with gross proceeds of at least \$3,000,000 ("Qualified Common Financing") prior to the Maturity Date, the outstanding principal and all accrued but unpaid interest may be converted into shares of common stock issued in the financing at a price per share equal to 90% of the price per share of the Qualified Common Financing. The indebtedness represented by the Subordinated Convertible Notes is subordinated in all respects to the principal of (and premium, if any), unpaid interest on and amounts reimbursable, fees, expenses, costs of enforcement, and other amounts due in connection with the Revolver and the Note. On October 27, 2017, the amended and restated subordinated convertible note agreement and the note amendment agreement amended the subordinated convertible note purchase agreement dated March 24, 2017, and Subordinated Convertible Notes issued thereunder (as amended, the "Restated Subordinated Convertible Notes"), respectively. Pursuant to the Restated Subordinated Convertible Notes, the outstanding principal and all accrued but unpaid interest is due and payable on the earlier of September 30, 2019, or the consummation of a sale of the Company by consolidation, merger, change of majority ownership, or sale or other disposition of all or substantially all of the assets of the Company (the "New Maturity Date"). The interest rate of 8% per annum remained unchanged.

From October 2017 to December 2017, the Company issued Restated Subordinated Convertible Notes to Investors for total proceeds of \$1,225,000. The outstanding principal and all accrued but unpaid interest is due and payable on the New Maturity Date. In the event of a closing of a Qualified Financing prior to the New Maturity Date, the outstanding principal and all accrued but unpaid interest would become automatically converted into shares of stock issued in the financing at a price per share equal to 75% of the price per share of the financing. The indebtedness represented by the Restated Subordinated Notes is subordinated in all respects to the principal of (and premium, if any), unpaid interest on and amounts reimbursable, fees, expenses, costs of enforcement, and other amounts due in connection with the Revolver and the Note.

In 2018, a Restated Subordinated Convertible Notes holder converted their shares upon closing the 2018 Common Stock Offering, which qualified as a Qualified Common Financing. The noteholder converted \$250,000 in principal and \$27,617 in accrued interest at a 10% discount into 30,847 shares of common stock. The Company recorded \$30,847 to interest expense as a result of the beneficial conversion.

Accrued interest on the Restated Subordinated Convertible Notes, presented within "Accounts payable and accrued expenses" in the Company's Consolidated Balance Sheets, was \$186,426 and \$52,592 at December 31, 2018 and 2017, respectively.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 9: NOTES PAYABLE

On January 11, 2017, the Company entered into a promissory note and security agreement (the "Note") for a principal sum of \$1,000,000. We paid an origination fee of \$10,000 concurrently with the funding of the principal of the Note. We subsequently entered into an amendment to the Note extending the payment schedule for a \$5,000 amendment fee, a second amendment increasing the principal amount outstanding to \$2,000,000 for a \$30,000 amendment fee and a third amendment further extending the repayment schedule among other terms described below for a \$10,000 amendment fee. The amendment fees were deferred and amortized over the life of the Note.

The Note incurs interest at a rate of 8.0% per annum from January 11, 2017 until September 30, 2017, and 14.0% per annum from October 1, 2017, until payment in full of the Note, in each case calculated on the basis of a 360-day year for the actual number of days elapsed. The Note must be repaid as follows: (i) \$250,000, plus accrued but unpaid interest thereon, was due and payable on June 30, 2017; (ii) \$250,000, plus any accrued but unpaid interest thereon, is due and payable on March 31, 2019; (iii) \$500,000, plus any accrued but unpaid interest thereon, is due and payable on June 30, 2019; (iv) \$500,000, plus any accrued but unpaid interest thereon, is due and payable on September 30, 2019; and (v) any remaining outstanding principal amount, plus any remaining accrued but unpaid interest, is due and payable on December 31, 2019.

The Note includes certain financial covenants related to the Company's quarterly financial results and operating capital. The Note is subject to customary event of default provisions. Upon the occurrence of any event of default, the interest rate under the Note shall increase by 7.0%. As collateral security for the Note, the Company granted first priority security interest in all of its assets, subject to certain exceptions. Among other things, the security interest specifically excludes (i) any assets serving as collateral for the Company's Revolver; (ii) any Loans for which a series of LROs has been issued, regardless of whether such Loans and corresponding series of LROs have been originated and issued by the Company or one of its subsidiaries; and (iii) the equity interest in any subsidiary formed by the Company for the sole purpose of issuing Loans and corresponding series of LROs.

In connection with the third amendment to the Note, the Company agreed to issue a warrant for the purchase of shares of the Company's common stock on the first day of each quarter commencing on October 1, 2017, until the Note is repaid in full for the purchase of the following number of shares: (i) for each quarter until and including the first quarter of 2019, 4,000 shares of common stock; (ii) for the second quarter of 2019, 3,500 shares of common stock; (iii) for the third quarter of 2019, 2,300 shares of common stock; and (iv) for the fourth quarter of 2019, 1,100 shares of common stock. The exercise price of the warrants issued on the Note in connection with the third amendment to the Note is \$2.40.

As of December 31, 2018, the principal sum of \$1,750,000 remains outstanding and is presented in "Short-term notes payable" on the Company's Consolidated Balance Sheets net of deferred financing fees of \$15,370, and debt discount of \$90,648, amortizable over the amended term of the Note. Amortization of these costs was \$69,222 for the year ended December 31, 2018. As of December 31, 2017, the principal sum of \$1,750,000 was outstanding and is presented in "Long-term notes payable" on the Company's Consolidated Balance Sheets net of deferred financing fees of \$30,741, and debt discount of \$20,000, amortizable over the amended term of the Note. Amortization of these costs was \$24,676 for the year ended December 31, 2017.

Accrued interest on the Note, presented within "Accounts payable and accrued expenses" in the Company's Consolidated Balance Sheets, was \$62,611 and \$63,111 at December 31, 2018 and 2017, respectively.

The Note includes financial covenants that may trigger events of default or principal acceleration. The Company failed to comply with all the financial covenants during the year-end December 31, 2018. Prior to the filing date of the Consolidated Financial Statements, the Company secured a waiver to prevent a default event and principal acceleration.

GROUNDFLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 9: NOTES PAYABLE (concluded)

In 2018, the Company entered into various secured promissory notes, (the "GROUNDFLOOR Notes"), with accredited Investors. The GROUNDFLOOR Notes are used for the purpose of the Company to originate, buy, and service loans for the purpose of building, buying, or rehabilitating single family and multifamily structures, or buying land, for commercial purposes. The GROUNDFLOOR Notes are issued and secured by the assets of Groundfloor Real Estate 1 LLC, a wholly owned subsidiary of Groundfloor Finance, Inc. As collateral security for GROUNDFLOOR Notes, the Company granted first priority security interest in all the loan assets of its wholly owned subsidiary, Groundfloor Real Estate 1 LLC, subject to certain exceptions. During the year-end December 31, 2018, there were ten notes entered into ranging in interest rates of 3.25% to 5.5% and terms of 30 and 90 days. As of December 31, 2018, the principal sum of \$1,281,100 remains outstanding and is presented in "Short-term notes payable" on the Company's Consolidated Balance Sheets.

Accrued interest on the GROUNDFLOOR Notes, presented within "Accounts payable and accrued expenses" in the Company's Consolidated Balance Sheets, was \$4,100 at December 31, 2018.

NOTE 10: STOCKHOLDERS' (DEFICIT) EQUITY**Capital Structure**

Authorized Shares - As of December 31, 2018, the Company is authorized to issue 5,000,000 shares of no par value common stock and 1,316,181 shares of no par value preferred stock. The preferred stock has been designated as Series A Preferred Stock (the "Series A"), consisting of 747,385 shares, and Series Seed Preferred Stock (the "Series Seed"), consisting of 568,796 shares (collectively, "Preferred Stock").

Common Stock Transactions

In February 2018, the Company launched an offering of its common stock under Tier 2 of Regulation A pursuant to an offering statement on Form 1-A qualified by the SEC (the "2018 Common Stock Offering"). The Company offered up to 500,000 shares of common stock at \$10 per share, with a minimum investment of \$100, or ten shares of common stock. The aggregate initial offering price of the common stock will not exceed \$5,000,000 in any 12-month period, and there is no minimum offering amount. The Company may issue up to 30,000 additional bonus shares. The 2018 Common Stock Offering closed on July 31, 2018. During the 2018 Common Stock Offering, the Company issued 437,917 shares of common stock for gross proceeds of \$4,228,670. The Company incurred offering costs of \$125,000 related to the 2018 Common Stock Offering. During the year ended December 31, 2018, the Company recorded \$150,500 in beneficial interest related to the bonus shares issued in connection with the 2018 Common Stock Offering to "General and administrative" in the Company's Consolidated Statement of Operations. In conjunction with the 2018 Common Stock Offering, the Company converted one noteholder's outstanding restated subordinated convertible notes payable and accrued interest totaling \$277,617 into 30,847 shares of common stock.

In October 2018, the Company entered into a common stock purchase agreement for private placement of 125,000 shares of the Company's common stock for gross proceeds of \$1,500,000.

GROUNDFLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 10: STOCKHOLDERS' (DEFICIT) EQUITY (concluded)**Preferred Stock Transactions***Series A*

During 2015, the Company issued 709,812 shares of Series A to Investors for total proceeds of \$4,748,705. In conjunction with the equity issuance, the Company converted all outstanding promissory notes payable and accrued interest totaling \$251,295 into 37,561 shares of Series A.

Series Seed

During 2015 and 2014, the Company issued 201,146 and 91,259 shares, respectively, to Investors for total proceeds of \$1,047,000 and \$475,000. In conjunction with the equity issuance in 2014, the Company converted all outstanding convertible notes payable and accrued interest totaling \$1,098,388 into 276,391 shares of Series Seed.

Voting - The holders of Preferred Stock are entitled to one vote for each share of common stock into which the preferred shares are convertible.

Liquidation - Upon any liquidation, dissolution, or winding up of the Company, the holders of Series A shall be entitled to be paid out of the assets of the Company available for distribution to its stockholders before any payment shall be made to the holders of common stock or Series Seed, an amount per share equal to the greater of: i) the Series A original issue price of \$6.69 per share, plus any dividends declared but unpaid, and ii) such amount per share as would have been payable had all shares of Series A been converted into common stock immediately prior to such liquidation, dissolution, or winding up. If the available assets are insufficient to pay the holders of shares of Series A the full amount to which they shall be entitled, then all of the available assets shall be distributed to the holders of the Series A pro rata in accordance with their ownership thereof.

After payment in full of the Series A preference amount, the Series Seed stockholders are entitled to a liquidation preference equal to the greater of: i) the Series Seed original issue price of \$5.205 per share, plus any dividends declared but unpaid, or ii) such amount per share as would have been payable had all shares of Series Seed been converted into common stock immediately prior to such liquidation, dissolution, or winding up. If the available assets are insufficient to pay the holders of shares of Series Seed the full amount to which they shall be entitled, then all of the available assets shall be distributed to the holders of the Series Seed pro rata in accordance with their ownership thereof. Any assets remaining after such preferential distribution shall be distributed to holders of the common stock.

Conversion - Shares of Preferred Stock are convertible into shares of common stock at the option of the holder at any time. The number of common stock shares for Preferred Stock can be determined by dividing the original issue price by the then-effective conversion price.

Mandatory Conversion - All outstanding shares of Preferred Stock shall automatically be converted into shares of common stock upon the closing of the sales of shares of common stock to the public, with gross proceeds to the Company of at least \$30,000,000. All outstanding shares of Series A shall automatically be converted into shares of common stock by the date and time, or the occurrence of an event, specified by vote or written consent of the holders of at least a majority of the then outstanding shares of Series A, voting as a single class. All outstanding shares of Series Seed shall automatically be converted into shares of common stock by the date and time, or the occurrence of an event, specified by vote or written consent of the holders of at least a majority of the then outstanding shares of Series Seed, voting as a single class.

Dividends - All dividends shall be declared pro rata on the common stock and Preferred Stock on a pari passu basis according to the numbers of common stock held by such holders on an as converted basis.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 11: STOCK OPTIONS AND WARRANTS**Stock Options**

In August 2013, the Company adopted the 2013 Stock Option Plan (the "Plan"). The Plan provides incentives to eligible employees, officers, and directors in the form of incentive stock options, non-qualified stock options, and restricted stock awards. During the year ended December 31, 2018, the Company increased the shares available for common stock issuance under the Plan by 150,000. As of December 31, 2018 the Company reserved a total of 400,000 shares of common stock for issuance under the Plan. Of these shares, 65,004 shares are available for future stock option grants as of December 31, 2018.

The Board of Directors has the authority to administer the Plan and determine, among other things, the interpretation of any provisions of the Plan, the eligible employees who are granted options, the number of options that may be granted, vesting schedules, and option exercise prices. The Company's stock options have a contractual life not to exceed ten years. The Company issues new shares of common stock upon exercise of stock options.

Due to limited historical data, the Company estimates stock price volatility based on the actual volatility of comparable publicly traded companies over the expected life of the option. The expected term represents the average time that options that vest are expected to be outstanding. The expected term for options granted to non-employees is the contractual life. The risk-free rate is based on the United States Treasury yield curve for the expected life of the option.

Management used the Black-Scholes-Merton option pricing model to determine the fair value of options issued during the years ended December 31, 2018 and 2017.

The assumptions used to calculate the fair value of stock options granted are as follows:

For the Year Ended December 31, 2018	Non- Employees	Employees
Estimated dividend yield	-%	-%
Expected stock price volatility	55.0%	50.0%
Risk-free interest rate	3.0%	2.8%
Expected life of options (in years)	10.0	6.25
Weighted-average fair value per share	\$ 6.71	\$ 5.65
For the Year Ended December 31, 2017	Non- Employees	Employees
Estimated dividend yield	-%	-%
Expected stock price volatility	52.3%	50.0%
Risk-free interest rate	1.8%	2.0%
Expected life of options (in years)	10.0	5.9
Weighted-average fair value per share	\$ 4.67	\$ 4.48

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 11: STOCK OPTIONS AND WARRANTS (continued)

The following summarizes the stock option activity for the years ended December 31, 2018 and 2017:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of December 31, 2016	173,463	\$ 1.64		
Exercised	(5,336)	0.97		
Terminated	(23,894)	2.40		
Granted	90,050	2.40		
Outstanding as of December 31, 2017	234,283	\$ 1.88		
Exercised	(2,415)	2.40		
Terminated	(10,419)	4.81		
Granted	98,476	10.41		
Outstanding as of December 31, 2018	319,925	\$ 4.40	7.7	\$ 2,431,000
Exercisable as of December 31, 2018	209,601	2.10	6.8	\$ 2,075,000
Expected to vest after December 31, 2018	110,324	8.77	9.4	\$ 356,000

The following table summarizes certain information about all stock options outstanding as of December 31, 2018:

Exercise Price	Number of Options Outstanding	Weighted-Average Remaining Contractual Life (In Years)	Number of Options Exercisable
\$ 0.67	64,000	5.0	64,000
1.87	51,857	6.6	50,940
2.40	103,092	8.4	77,585
3.99	10,000	5.8	10,000
10.00	55,475	9.6	4,574
12.00	35,501	10.0	2,502
	319,925		209,601

As of December 31, 2018, there was approximately \$554,000 of total unrecognized compensation cost related to stock option arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 2.2 years. The total intrinsic value of stock option awards exercised was approximately \$23,000 during the fiscal year ended December 31, 2018.

The Company recorded \$53,395 and \$42,308 in non-employee and \$191,748 and \$89,314 in employee share-based compensation expense during 2018 and 2017, respectively.

GROUND FLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 11: STOCK OPTIONS AND WARRANTS (concluded)**Warrants**

The Company issued 11,175 warrants during the year ended December 31, 2017, for the purchase of common stock. The warrants are exercisable immediately at \$2.40 or \$6.69 with a contractual term of ten years. The estimated fair value of the warrants was approximately \$48,441 when issued. The fair value was calculated using the Black-Scholes-Morton pricing model with the following weighted-average assumptions yielding a weighted average fair value of \$4.33: risk-free interest rate of 2.1%, expected life of ten years, dividend yields of 0% and volatility factor of 55.0%.

The Company issued 16,000 warrants during the year ended December 31, 2018, for the purchase of common stock. The warrants are exercisable immediately at \$2.40 with a contractual term of ten years. The estimated fair value of the warrants was approximately \$124,500 when issued. The fair value was calculated using the Black-Scholes-Morton pricing model with the following weighted-average assumptions yielding a weighted average fair value of \$7.79, risk-free interest rate of 2.9%, expected life of ten years, dividend yields of 0%, and volatility factor of 55.0%.

Of the warrants issued during the year ended December 31, 2018, 16,000 were issued in conjunction with the Note. The warrants were recorded for \$124,500 as a debt discount to "Long-term notes payable" and corresponding increase in "Additional paid-in capital" and will be amortized to interest expense over the estimated term of the Note. Of the warrants issued during the year ended December 31, 2017, 4,000 were issued in conjunction with the Note. The warrants were recorded for \$20,000 as a debt discount to "Long-term notes payable" and corresponding increase in "Additional paid-in capital" and will be amortized to interest expense over the estimated term of the Note. The Company recognized interest expense of \$53,852 and \$28,441 during the years ended December 31, 2018 and 2017, respectively.

Additionally, the Company recognized \$36,000 in share-based compensation expense during 2018 related to warrants issued in a prior period. The fair value was calculated using the Black-Scholes-Morton pricing model with the following weighted-average assumptions yielding a weighted average fair value of \$2.39, risk-free interest rate of 2.08%, expected life of ten years, dividend yields of 0%, and volatility factor of 51.2%.

None of the warrants have been exercised as of December 31, 2018.

NOTE 12: INCOME TAXES

On December 22, 2017, the United States enacted new tax reform legislation which reduced the corporate tax rate to 21% effective for the tax year beginning January 1, 2018. Under ASC 740, the effects of new tax legislation are recognized in the period which includes the enactment date. As a result, the deferred tax assets and liabilities existing on the enactment date must be revalued to reflect the rate at which these deferred balances will reverse. The corresponding adjustment would generally affect the income tax expense (benefit) shown on the Consolidated Statements of Operations.

However, since the Company has a full valuation allowance applied against its deferred tax asset, there is no impact to the income tax expense for the year ended December 31, 2018.

GROUNDLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 12: INCOME TAXES (concluded)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the Company's deferred income tax assets and liabilities as of December 31, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Deferred income tax assets and liabilities:		
Net operating loss carryforwards	\$ 4,473,000	\$ 2,887,000
Accrued expenses	21,000	101,000
Share-based compensation	82,000	45,000
Accrued interest	94,000	39,000
Research and development credit	25,000	25,000
Depreciation and amortization	(31,000)	(30,000)
Valuation allowance	(4,664,000)	(3,067,000)
	<u>\$ -</u>	<u>\$ -</u>

The Company has established a valuation allowance against its deferred tax assets due to the uncertainty surrounding the realization of such asset. The valuation allowance increased by approximately \$1,597,000 and \$279,000, respectively, during the years ended December 31, 2018 and 2017.

As of December 31, 2018, the Company has federal and state net operating loss carryforwards of approximately \$17,204,000 available to offset future federal and state taxable income, which begin to expire in 2033 and 2028. The Tax Reform Act of 1986 contains provisions which limit the ability to utilize the net operating loss carryforwards in the case of certain events, including significant changes in ownership interests. If the Company's net operating loss carryforwards are limited, and the Company has taxable income which exceeds the permissible yearly net operating loss carryforwards, the Company would incur a federal income tax liability even though net operating loss carryforwards would be available in future years.

Income taxes computed at the statutory federal income tax rate are reconciled to the provision for income tax expense for 2018 and 2017 as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Amount</u>	<u>% of Pre-Tax Earnings</u>	<u>Amount</u>	<u>% of Pre-Tax Earnings</u>
Income tax expense (benefit) at statutory rate	\$ (1,281,000)	(21.0)%	\$ (1,389,000)	(34.0)%
Deferred tax impact of enacted tax rate and law changes	-	-%	1,443,000	35.3%
State taxes (net of federal benefit)	(278,000)	(4.6)%	(186,000)	(4.6)%
Non-deductible expenses	(38,000)	(0.6)%	(147,000)	(2.6)%
Change in valuation allowance	1,597,000	26.2%	279,000	5.9%
Provision for income tax expense	<u>\$ -</u>	<u>0.0%</u>	<u>\$ -</u>	<u>0.0%</u>

The Company recognizes interest and penalties related to uncertain tax positions in the provision for income taxes. As of December 31, 2018 and 2017, the Company had no accrued interest related to uncertain tax positions.

GROUNDLOOR FINANCE INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

NOTE 13: RELATED PARTY TRANSACTIONS**ISB Development Corp.**

The Company's Note holder, ISB Development Corp, is owned and operated by a director of the Company. In January 2017, the Company's Board of Directors approved the execution of the promissory note and security agreement (the "Note") and subsequent amendments. See Note 9 for further discussion and disclosure associated with the Note.

Del Oro Rock LLC

In August 2017, the Company launched its new whole loan sale program. In connection with the new program, the Company sold a Loan at par to Del Oro Rock LLC for \$350,000. Del Oro Rock LLC is owned and operated by a member of management and stockholder of the Company.

In October 2017, the Company issued 7,550 warrants to Del Oro Rock LLC. The warrants were issued as a part of the Company's Cornerstone Investor Program. A cornerstone investor is expected to participate in LROs at an agreed upon amount. The Company recorded \$28,441 to "Additional paid-in capital" and share-based compensation expense during the year ended December 31, 2017.

NOTE 14: COMMITMENTS AND CONTINGENCIES

The Company has a noncancelable operating lease agreement for office space. The lease contains a renewal option within 67 months of the commencement date of September 2018. Rent expense for operating leases, which has escalating rents over the term of the lease, is recorded on a straight-line basis over the minimum lease terms. Rent expense under the operating lease was \$60,766 during the year ended December 31, 2018.

As of December 31, 2018, the approximate amounts of the annual future minimum lease payments under noncancelable operating leases obligations are as follows:

Years ending December 31,	<u>Balance</u>
2019	\$ 172,329
2020	265,261
2021	273,219
2022	281,416
2023	289,858
Thereafter	98,777
	<u>\$ 1,380,860</u>


NOTE 15: SUBSEQUENT EVENTS

On February 12, 2018, the United States Securities and Exchange Commission issued a Notice of Qualification of the Company's Offering Circular. On January 14, 2019 and on February 25, 2019, the Company filed amendments to this offering circular raising the price to \$13.50 and \$15.00 respectively. As of March 21, 2019 the Company has sold approximately \$1,500,000 comprising of securities sold through the qualified offering circular, and securities sold through exemptions. The Company may sell additional securities through 2019.

Subsequent events were evaluated through March 21, 2019, the date the Consolidated Financial Statements were available to be issued.

Except as expressly set forth herein, the Company's offering of Groundfloor Limited Recourse Obligations, as described in the Offering Circular, as amended or otherwise supplemented by the Company's public reports filed with the Securities and Exchange Commission and available at the Commission's website, www.sec.gov, which the Company incorporates by reference in the Offering Circular, remains unchanged.

PROJECT SUMMARY | 1257 EAST 169TH STREET, SOUTH HOLLAND, IL 60473



Rate	Projected Term	Loan To ARV	Loan Amount	Investors
11%	12 months	68.6%	\$150,950	0

BORROWER
C & G Development Group Inc
Cody Green - principal

Purpose	Loan Position	Total Loan Amount	Repayment Terms
Purchase & Renovation	First Lien	\$150,950	Balloon payment - principal and interest returned on repayment / due at maturity.

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[Click here to view the LRO Agreement](#)

FINANCIAL OVERVIEW

After Repair Value (ARV) [?] \$220,000

Total Project Costs [?] \$196,950

GROUND FLOOR \$150,950

0% — Skin-in-the-Game [?] First Lien Loan Cushion [?]

Purchase Price [?] \$140,000 Loan To ARV [?] 68.6%

Purchase Date 10/02/2019 Loan To Total Project Cost [?] 75.8%

GRADE FACTORS

The following factors determine in part how the loan was graded: (in descending order of importance)

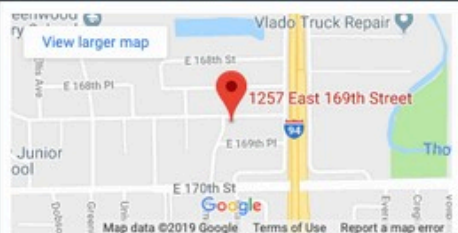
Loan To ARV Score [?]	4	10
Quality of Valuation Report	4	4
Skin-in-the-Game [?]	4	10
Location	4	8
Borrower Experience	1	5
Borrower Commitment [?]	1	1

VALUATION REPORTS

As Complete (ARV) \$220,000

- [Certified Independent Appraisal](#)
- [Broker's Price Opinion](#)
- [Borrower Provided Appraisal](#)
- [Borrower Provided Comps](#)

PROPERTY DESCRIPTION



Address: [1257 EAST 169TH STREET, SOUTH HOLLAND, IL 60473](#)

The Borrower intends to use the loan proceeds to purchase and renovate the property. Upon completion, the Borrower intends to sell the property to repay the Groundfloor loan.

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[Click here to view the LRO Agreement](#)

PROPERTY PHOTOS



MISCELLANEOUS

PROJECT SPECIFIC RISK FACTORS

- The Borrower was advanced the money it needed to purchase this property on October 2, 2019 by Groundfloor Finance Inc. ("Groundfloor," "we," "us," or "our") or a wholly-owned subsidiary of Groundfloor. The Borrower is now in possession of the property. If this offering is fully subscribed, Groundfloor will continue to administer and service the loan as further described in the Offering Circular.
- The renovation of the property may be extensive, and therefore subject to delays and other unexpected issues.
- The renovation will require permitting, and permits may not be obtained on time or may be denied.
- The Borrower has not completed or sold any projects in the past year. As such, the Borrower's average revenue, costs, and margins cannot be calculated.
- The Principal has not yet completed or sold any projects. As such, the Principal's average revenue, costs, and margins cannot be calculated.
- Please consult the [Offering Circular](#) for further discussion of general risk factors.

CLOSING CONDITIONS

- Loan is conditioned upon a clean title search and valid title insurance at the time of close.

DEVELOPER FEES

- GROUND FLOOR generally charges borrowers between 2% and 6% of the principal amount of the loan for our services.
- GROUND FLOOR does not take a 'spread' on any part of the interest payments.
- Developers may capitalize the cost of closing into the principal amount of their request. These closing costs typically range from \$500 to \$1500.
- Unless otherwise limited by applicable law, GROUND FLOOR will charge a penalty of 2% for any extension made to the borrower. See GROUND FLOOR 'Fees and Expenses' in the [Offering Circular](#).

SEC FILING INFORMATION

- The series of LROs corresponding to this Project are offered pursuant to Post Qualification Amendment No. 64 to the Offering Circular dated December 29, 2017 (each, as amended and supplemented from time to time), including the documents incorporated by reference therein. You may access and review these documents on the Internal Filings Directory located on our Platform.

BORROWER SUMMARY

UNLESS NOTED WITH A ★, INFORMATION BELOW IS SUPPLIED BY THE BORROWER AND IS NOT VERIFIED.
BORROWERS REPRESENT AND WARRANT THAT INFORMATION SUPPLIED IS ACCURATE.

C & G DEVELOPMENT GROUP INC

FINANCIAL DATA

Reporting date: 09/30/19

PROJECTS / REVENUE

Reporting period: 2018

DATE OF FORMATION ★

05/28/2019

Value of Properties ?

\$0

Total Debt ?

\$0

Completed Projects ?

0

Revenue ?

\$0

Unsold Inventory ?

0

Aged Inventory ?

0

Gross Margin % ?

N/A



PRINCIPAL
Cody Green

FOCUS

Fix & Flip

GROUND FLOOR HISTORY ★

Loans Funded ?

0

Loans Repaid ?

0

On Time
Repayment ?

N/A

HISTORICAL AVERAGES

Reporting period: three years ending 2018

Completed Projects
Per Year ?

0

Average Project
Revenue ?

\$0

Average Project
Time ?


N/A

Average Total
Project Costs ?

\$0

THE COMPANY PLAYED NO ROLE IN THE PREPARATION OF ANY OF THE VALUATION SOURCES OR ANY OTHER MATERIALS PROVIDED BY THE BORROWER. WHILE WE BELIEVE THE DATA CONTAINED THEREIN IS HELPFUL, WE DO NOT USE IT AS THE SOLE BASIS FOR A FUNDING DECISION.

PROJECT SUMMARY | 140 HOLLY ROAD NORTHWEST, ATLANTA, GA 30314



Rate	Projected Term	Loan To ARV	Loan Amount	Investors
10%	6 months	65.3%	\$166,580	0
Purpose	Loan Position	Total Loan Amount	Repayment Terms	
Purchase & Renovation	First Lien	\$166,580	Balloon payment - principal and interest returned on repayment / due at maturity.	

BORROWER
 SJB Investments, LLC
 Janay Boucan - principal

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FINANCIAL OVERVIEW

After Repair Value (ARV) [?] \$255,000

Total Project Costs [?] \$185,280

GROUND FLOOR \$166,580

Skin-in-the-Game [?] \$18,700

Cushion [?] \$69,720

0% — Skin-in-the-Game [?] First Lien Loan Cushion [?]

Purchase Price [?] **\$117,500** Loan To ARV [?] **65.3%**

Purchase Date **09/26/2019** Loan To Total Project Cost [?] **89.5%**

GRADE FACTORS

The following factors determine in part how the loan was graded: (in descending order of importance)

Loan To ARV Score [?]	4	10
Quality of Valuation Report	4	4
Skin-in-the-Game [?]	2	10
Location	4	8
Borrower Experience	3	5
Borrower Commitment [?]	1	1

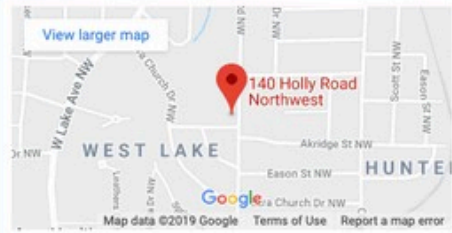
VALUATION REPORTS

As Complete (ARV)

\$255,000

- [Certified Independent Appraisal](#)
- [Broker's Price Opinion](#)
- [Borrower Provided Appraisal](#)
- [Borrower Provided Comps](#)

PROPERTY DESCRIPTION



Address: **140 HOLLY ROAD NORTHWEST, ATLANTA, GA 30314**

The Borrower intends to use the loan proceeds to purchase and renovate the property. Upon completion, the Borrower intends to sell the property to repay the Groundfloor loan.

[INVEST NOW](#)

[Click here to view the LRO Agreement](#)

PROPERTY PHOTOS



MISCELLANEOUS

PROJECT SPECIFIC RISK FACTORS

- The Borrower was advanced the money it needed to purchase this property on September 26, 2019 by Groundfloor Finance Inc. ("Groundfloor," "we," "us," or "our") or a wholly-owned subsidiary of Groundfloor. The Borrower is now in possession of the property. If this offering is fully subscribed, Groundfloor will continue to administer and service the loan as further described in the Offering Circular.
- The renovation of the property may be extensive, and therefore subject to delays and other unexpected issues.
- The renovation will require permitting, and permits may not be obtained on time or may be denied.
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CLOSING CONDITIONS

- Loan is conditioned upon a clean title search and valid title insurance at the time of close.

DEVELOPER FEES

- GROUND FLOOR generally charges borrowers between 2% and 6% of the principal amount of the loan for our services.
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BORROWER SUMMARY

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SJB INVESTMENTS, LLC

FINANCIAL DATA

Reporting date: 09/30/19

PROJECTS / REVENUE

Reporting period: 2018

DATE OF FORMATION ★

Value of Properties ?

Total Debt ?

Completed Projects ?

Revenue ?

09/14/2019

\$175K	\$0	1	\$225K
Unsold Inventory [?]	Aged Inventory [?]	Gross Margin % [?]	
1	0	20.0%	



PRINCIPAL
Janay Boucan

GROUND FLOOR HISTORY ★

HISTORICAL AVERAGES

Reporting period: three years ending 2018

FOCUS

Fix & Flip

Loans Funded [?]

1

Loans Repaid [?]

0

Completed Projects
Per Year [?]

2

Average Project
Revenue [?]

\$133.8K

On Time
Repayment [?]

N/A

Average Project
Time [?]

12 months

Average Total
Project Costs [?]

\$80.5K

THE COMPANY PLAYED NO ROLE IN THE PREPARATION OF ANY OF THE VALUATION SOURCES OR ANY OTHER MATERIALS PROVIDED BY THE BORROWER. WHILE WE BELIEVE THE DATA CONTAINED THEREIN IS HELPFUL, WE DO NOT USE IT AS THE SOLE BASIS FOR A FUNDING DECISION.

