

HOLLY
MORTGAGE
TRUST

2013 ANNUAL REPORT

TO OUR SHAREHOLDERS:

The financial statements of Holly Mortgage Trust (“Holly”), audited by Melton & Melton, L.L.P. for the years ended December 31, 2013 and December 31, 2012, are included at the end of this report. In 2013, revenue was down 63% to \$98,131, and there was a net loss of \$565,286, which equates to \$0.35 per share.

The main contributor to this loss was a \$314,978 foreclosure loan expense related to the bankruptcy of the Heights of Tampa project. The mortgage note was settled in full, and Holly received land with a value of \$27,829. This land was later sold at a profit and Holly will retain a participation in Hillsborough River Properties, LLC (please see Note 8 for additional details). The loss also includes the payment of \$143,657 in dividends on its two classes of convertible preferred stock. All dividends due are paid on a current basis. Accounting guidelines require us to report these dividends as interest expense.

The strength of the Midland, Texas oil-based economy has benefited Holly through its ownership of the general partnership in the partnership that owns the Wilco office building. In 2013, Holly recorded income of \$87,368 from this investment.

LOANS

The following schedule summarizes all of Holly's loans outstanding at December 31, 2013.

<u>Net Principal Amount Outstanding</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Property Securing Loan</u>
\$55,000	12/31/2015	6%	Unsecured

INVESTMENTS



Holly owns a \$750,000 equity stake (33.7% of total) in North Hills Village, a 152-unit apartment complex in El Paso, Texas. Construction was completed in 2012, and occupancy is 88.7%. Because the property is still in the lease-up stage, cash distributions have not commenced. The limited partners are entitled to an 8% preferential return on their invested capital.

Holly also owns a \$41,414 interest (15.6% of total) in DMJ Note Syndication 2004, a mortgage pool operated by an unrelated entity. We expect this entity to wind up its affairs and make final distributions in 2014 or early 2015.

Holly increased its interest in Global REIT, LP from \$74,438 to \$170,802 (24.0% of total). Global REIT, LP is an entity set up to acquire interests in real estate throughout the world through investments in regional real estate entities. Holly is intending to increase its ownership stake in Global REIT, LP. Global REIT's portfolio includes assets in the U.S., Australia, New Zealand and Mexico.

WEBSITE

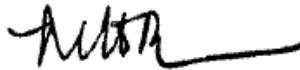
Holly's website, www.hollymortgage.com contains additional information about the trust. Earlier shareholder reports are posted on the website.

Shareholders can also contact the transfer agent below to change their mailing address, reregister shares, and arrange direct deposit of dividends:

Wells Fargo Shareowner Services
1110 Centre Pointe Curve,
Suite 101
Mendota Heights, MN 55120-4100
Phone: (800) 468-9716 Fax: (651) 450-4033,



Robert W. Scharar
President



Robert A. Burns
Treasurer

April 15, 2014

HOLLY MORTGAGE TRUST

FINANCIAL STATEMENTS
FOR THE
YEARS ENDED DECEMBER 31, 2013 AND 2012
AND
INDEPENDENT AUDITOR'S REPORT

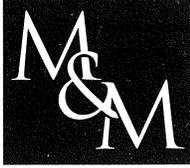


MELTON & MELTON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

HOLLY MORTGAGE TRUST

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor’s Report.....	1
Balance Sheets	3
Statements of Operations	4
Statements of Changes in Shareholders’ Deficit.....	5
Statements of Cash Flows	6
Notes to Financial Statements.....	8



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

INDEPENDENT AUDITOR'S REPORT

To the Board of Trust Managers of
Holly Mortgage Trust

We have audited the accompanying financial statements of Holly Mortgage Trust (the "Trust"), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations, changes in shareholders' deficit, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

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

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Holly Mortgage Trust as of December 31, 2013 and 2012, 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.

John L. L.P.

Houston, Texas
April 9, 2014

HOLLY MORTGAGE TRUST
BALANCE SHEETS
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Mortgage Notes Receivable:		
Mortgage notes receivable, net of participations payable of \$0 and \$3,080,000 at December 31, 2013 and 2012	\$ 55,000	\$ 1,007,000
Allowance for losses	-	(577,193)
	55,000	429,807
Cash and cash equivalents	27,050	124,989
Accrued interest receivable, net of participations interest payable of \$0 and \$562,542 at December 31, 2013 and 2012 and allowance for losses of \$1,062,826 and \$985,868 at December 31, 2013 and 2012	21,900	26,279
Other receivables	1,100	6,322
Note receivable - affiliate	-	139,739
Land	27,829	-
Investments	962,216	865,852
Prepaid expenses	-	14,343
	<u>\$ 1,095,095</u>	<u>\$ 1,607,331</u>
<u>LIABILITIES AND SHAREHOLDERS' DEFICIT</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 40,267	\$ 47,482
Account payable - affiliate	12,500	-
Notes payable	142,765	50,000
Preferential cumulative mandatorily redeemable shares of beneficial interest	1,625,000	1,675,000
	1,820,532	1,772,482
Shareholders' Deficit:		
Shares of beneficial interest, no par value, 20,000,000 shares authorized, 1,604,232 shares issued and outstanding	1,536,119	1,536,119
Accumulated deficit	(2,261,556)	(1,701,270)
	(725,437)	(165,151)
	<u>\$ 1,095,095</u>	<u>\$ 1,607,331</u>

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenue:		
Interest income	\$ 10,763	\$ 20,954
Other income	<u>87,368</u>	<u>245,667</u>
	<u>98,131</u>	<u>266,621</u>
Costs and Expenses:		
Management fees to affiliates	50,000	45,500
Professional fees	48,366	41,839
Interest expense	143,657	144,633
Loss on foreclosure of mortgage note receivable	314,978	-
Impairment loss on investment	46,901	-
General and administrative	<u>59,515</u>	<u>50,001</u>
	<u>663,417</u>	<u>281,973</u>
Net loss	<u>\$ (565,286)</u>	<u>\$ (15,352)</u>
Weighted average shares outstanding	<u>1,604,232</u>	<u>1,604,232</u>
Net loss per share, basic and diluted	<u>\$ (0.35)</u>	<u>\$ (0.01)</u>

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT
For the Years Ended December 31, 2013 and 2012

	Shares of		Accumulated	Shareholders'
	<u>Number</u>	<u>Amount</u>		
Balance , December 31, 2011	1,604,232	\$ 1,536,119	\$ (1,685,918)	\$ (149,799)
Net loss	<u>-</u>	<u>-</u>	<u>(15,352)</u>	<u>(15,352)</u>
Balance , December 31, 2012	1,604,232	1,536,119	(1,701,270)	(165,151)
Purchase and retirement of 50,000 preferential cumulative mandatorily redeemable shares of beneficial interest	-	-	5,000	5,000
Net loss	<u>-</u>	<u>-</u>	<u>(565,286)</u>	<u>(565,286)</u>
Balance , December 31, 2013	<u>1,604,232</u>	<u>\$ 1,536,119</u>	<u>\$ (2,261,556)</u>	<u>\$ (725,437)</u>

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Net loss	\$ (565,286)	\$ (15,352)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on foreclosure of mortgage note receivable	314,978	-
Impairment loss on investment	46,901	-
Changes in operating assets and liabilities:		
Accrued interest receivable, net of participations interest payable	4,379	(5,863)
Other receivables	5,222	19,976
Prepaid expenses	14,343	(343)
Accounts payable and accrued expenses	<u>5,285</u>	<u>(16,276)</u>
Total adjustments	<u>391,108</u>	<u>(2,506)</u>
Net cash used in operating activities	<u>(174,178)</u>	<u>(17,858)</u>
Cash Flows from Investing Activities:		
Principal collected on mortgage notes receivable, net of participations payable	32,000	3,280
Collections on advance to affiliate	-	28,000
Collections on note receivable - affiliate	139,739	24,000
Purchase of investments	<u>(50,500)</u>	<u>(250,000)</u>
Net cash provided by (used in) investing activities	<u>121,239</u>	<u>(194,720)</u>
Cash Flows from Financing Activities:		
Purchase of preferential cumulatively mandatorily redeemable shares of beneficial interest	<u>(45,000)</u>	-
Net cash used in financing activities	<u>(45,000)</u>	-
Net decrease in cash and cash equivalents	(97,939)	(212,578)
Cash and Cash Equivalents, beginning of year	<u>124,989</u>	<u>337,567</u>
Cash and Cash Equivalents, end of year	<u>\$ 27,050</u>	<u>\$ 124,989</u>

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Supplemental Information:		
Cash paid for interest	<u>\$ 143,657</u>	<u>\$ 144,633</u>
Non-Cash Investing and Financing Activities:		
Settlement of foreclosure on mortgage note receivable:		
Mortgage notes receivable, net of participation payables of \$3,080,000	\$ (920,000)	\$ -
Allowance for losses	<u>577,193</u>	<u>-</u>
	(342,807)	-
Land received	<u>27,829</u>	<u>-</u>
Loss on foreclosure of mortgage note receivable	<u>\$ (314,978)</u>	<u>\$ -</u>
Investment acquired through the assumption of notes payable	<u>\$ 92,765</u>	<u>\$ -</u>

(See Notes to Financial Statements)

HOLLY MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Holly Mortgage Trust (the "Trust") is organized as a Texas real estate investment trust. The Trust has a termination date of December 31, 2030. The Trust is engaged primarily in the business of investing in second mortgages, equity participation mortgages, and multi-family residential properties. FCA Corp ("FCA") is the Trust's compensated manager. FCA is related to the Trust through common management.

Cash and Cash Equivalents

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

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

Mortgage Notes Receivable and Allowance for Losses

Mortgage notes receivable are carried at unpaid principal balances less an allowance for losses. Management intends to hold mortgage notes receivable to maturity. Mortgage notes receivable are principally collateralized by second mortgage loans on commercial or residential property and are due at various dates, with all notes due on demand. Mortgage notes receivable at December 31, 2013 bear interest at 6%.

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

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

HOLLY MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At December 31, 2013, the allowance for losses on mortgage notes receivable and accrued interest receivable was \$0 and \$1,062,826, respectively. At December 31, 2012, the allowance for losses on mortgage notes receivable and accrued interest receivable was \$577,193 and \$985,868, respectively. There was no impairment loss for 2013 or 2012.

At December 31, 2012, mortgage notes receivable consist of a mortgage note for \$4,000,000, net of mortgage participations payable of \$3,080,000, which are past due ninety days or more, placed on nonaccrual status, and considered impaired. The allowance for losses on the note is \$577,193 at December 31, 2012. In 2012, the Trust began foreclosure proceedings on this impaired mortgage note and, during 2013, the foreclosure proceedings were finalized. The balance on the mortgage note in the settlement, net of participations payable, was \$920,000. In conjunction with the foreclosure settlement, the mortgage note, net of participations payable, was settled in full, land was received which was valued at \$27,829, and a loss on foreclosure of mortgage note receivable was recognized for \$314,978.

There are no mortgage notes receivable considered impaired at December 31, 2013.

The change in the mortgage notes receivable allowance for losses during the years ended December 31, 2013 and 2012 is summarized as follows:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 577,193	\$577,193
Reduction for mortgage notes settled in foreclosure	<u>(577,193)</u>	<u>-</u>
Balance, end of year	<u>\$ -</u>	<u>\$577,193</u>

The change in the accrued interest receivable allowance for losses during the years ended December 31, 2013 and 2012 is summarized as follows:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 985,868	\$914,483
Provision for losses	<u>76,958</u>	<u>71,385</u>
Balance, end of year	<u>\$1,062,826</u>	<u>\$985,868</u>

There were no commitments to lend additional funds at December 31, 2013 or 2012.

Net Loss per Share

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

HOLLY MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

The Trust's primary business activity is investing in loans collateralized by mortgages on real estate. These loans are principally collateralized by real estate in Texas and Florida.

At December 31, 2013, one mortgage note receivable represented 100% of total mortgage notes receivable. At December 31, 2012, one mortgage note receivable represented approximately 98% of total mortgage notes receivable and its related participations payable represented 100% of total participations payable. Interest on two mortgage notes accounted for approximately 91% and 88% of total interest income for 2013 and 2012, respectively.

Land

Land is recorded at cost.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

NOTE 2 - INVESTMENTS

Investments, recorded at cost, consist of the following at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
A. R. Goldrick Company, Inc.	\$ -	\$ -
Global REIT, L.P.	170,802	74,438
DMJ Note Syndication 2004	41,414	41,414
Northeast Equity Partners, LP	<u>750,000</u>	<u>750,000</u>
	<u>\$962,216</u>	<u>\$865,852</u>

The Trust owns 100% of the common stock of A. R. Goldrick Company, Inc. (a C corporation) (A. R. Goldrick). A. R. Goldrick is the general partner of Wilco Building Partners, Ltd., a limited partnership that owns and operates an office building in Midland, Texas. The financial statements of A. R. Goldrick have not been consolidated with those of the Trust. The investment in A. R. Goldrick is accounted for using the cost method of accounting. In 2013 and 2012, the Trust received \$87,368 and \$245,667 from A. R. Goldrick that was recorded as other income in the statements of operations.

At December 31, 2012, the Trust owned 70 partnership units of Global REIT, L.P. ("Global"). In 2013, the Trust purchased a combined total of 312 partnership units from an individual and two separate related trusts, First Commonwealth Mortgage Trust ("FCMT") and Ivy Realty Trust ("Ivy"). Subsequently, the Trust owns 382 partnership units of Global. The Trust accounts for the investment in Global using the cost method of accounting. During 2013, management determined the investment in Global was impaired. As a result, a \$46,901 impairment loss on investment was recorded in 2013.

HOLLY MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 2 - INVESTMENTS (CONTINUED)

The Trust owns a 15.63% partnership interest in DMJ Note Syndication 2004. The Trust accounts for this investment using the cost method of accounting.

The Trust owns a 33.7% partnership interest in Northeast Equity Partners, LP (“NEP”) at December 31, 2013 and 2012. The Trust has no control or influence on management of NEP and accordingly, accounts for this investment using the cost method of accounting. In 2012, the Trust purchased a \$250,000 partnership interest in Northeast Equity Partners, LP from Nashville Properties, Inc., a related party through common management.

Investments with an aggregate cost of \$791,414 and \$865,852 at December 31, 2013 and 2012, respectively, were not evaluated for impairment because (a) the Trust did not estimate the fair value of those investments in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 825, *Financial Instruments*, and (b) the Trust did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of those investments.

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

HOLLY MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

The following table sets forth by level, within the fair value hierarchy, the Trust's assets at fair value measured on a nonrecurring basis as of December 31, 2013 (there were no fair value measurements at December 31, 2012):

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Impaired investment			<u>\$170,802</u>	<u>\$170,802</u>

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

NOTE 4 - NOTES PAYABLE

Notes payable consist of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Unsecured note, payable to an individual on demand or in January 2017, with interest payable quarterly at 6%	\$ 50,000	\$50,000
Unsecured note, payable to Ivy on demand or in June 2016, with interest payable quarterly at 0.23%	58,121	-

HOLLY MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 4 - NOTES PAYABLE (CONTINUED)

	<u>2013</u>	<u>2012</u>
Unsecured note, payable to FCMT on demand or in June 2016, with interest payable quarterly at 0.23%	\$ <u>34,644</u>	\$ <u>-</u>
	<u>\$142,765</u>	<u>\$50,000</u>

NOTE 5 - FEDERAL INCOME TAXES

The Trust operates in such a manner to qualify as a “real estate investment trust” under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder. Under those sections, the Trust will not be taxed on that portion of its qualifying income distributed to shareholders so long as at least 90% of the Trust’s otherwise taxable income is distributed to shareholders each year and other requirements of a qualified real estate investment trust are met. The Trust satisfied the income distribution requirements for the years ending December 31, 2013 and 2012. Management believes that all other requirements of a qualified real estate investment trust have been met.

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

	<u>2013</u>	<u>2012</u>
Ordinary income	0%	0%
Return of capital	<u>100</u>	<u>100</u>
	<u>100%</u>	<u>100%</u>

As of December 31, 2013, the Trust had a federal net operating loss carryforward of approximately \$2.2 million that can be deducted against future taxable income. The carryforward amount expires in 2023 - 2033. The Trust does not expect to pay federal income taxes, thus the tax effect of the net operating loss carryforward has been adjusted to zero by a valuation allowance of \$750,011 and \$430,347 at December 31, 2013 and 2012, respectively. The valuation allowance increased \$319,664 in 2013.

Management has evaluated the Trust’s tax positions and concluded that the Trust has taken no uncertain income tax positions that require adjustment to the financial statements. Tax-related interest and penalties are recorded in income tax expense in the statements of operations. The Trust incurred no tax-related interest and penalties in 2013 or 2012. The Trust is subject to income tax examinations by federal and state tax authorities for years beginning in 2010 and after.

HOLLY MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 6 - PREFERENTIAL SHARES OF BENEFICIAL INTEREST

Except for the rights and preferences in payment of dividends and in liquidations, the Preferential Shares of Beneficial Interest (“Preferential Shares”) have the same voting and other rights as the Shares of Beneficial Interest (“Common Shares”). The Preferential Shares issued in 2004 are entitled to receive cumulative preferential dividends at the annual rate of nine cents (\$0.09) per share before any dividends are paid on the Common Shares. The Preferential Shares issued in 2009 and 2008 are entitled to receive cumulative preferential dividends at the annual rate of eight cents (\$0.08) per share before any dividends are paid on the Common Shares.

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

The 2004 Preferential Shares (950,000 shares authorized and 755,000 shares issued and outstanding at December 31, 2013 and 2012) are subject to redemption at any time after January 1, 2009 upon not less than thirty days’ prior written notice, in whole or in part, at the election of the Trust at the redemption price of one dollar (\$1) per share plus all unpaid dividends accrued to the redemption date. Any Preferential Shares issued in 2004 that are outstanding on September 30, 2014 will be redeemed on that date.

The 2008 Preferential Shares (990,000 shares authorized and 870,000 and 920,000 shares issued and outstanding at December 31, 2013 and 2012, respectively) are subject to redemption at any time after January 1, 2012 upon not less than thirty days’ prior written notice, in whole or in part, at the election of the Trust at the redemption price of one dollar (\$1) per share plus all unpaid dividends accrued to the redemption date. Any Preferential Shares issued in 2009 and 2008 that are outstanding on September 30, 2019 will be redeemed on that date. During 2013, the Trust redeemed 50,000 Preferential Shares for \$45,000, net of a \$5,000 discount.

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

NOTE 7 - MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS

Management fees to FCA were approximately \$50,000 and \$46,000 for the years ended December 31, 2013 and 2012, respectively. Prepaid management fees to FCA were \$12,500 at December 31, 2012. There are no prepaid management fees at December 31, 2013. The management fee is based on the greater of \$50,000 or 1.4% of the book value of the assets of the Trust at the end of each prior fiscal year less accounting and certain board member fees.

At December 31, 2013, the Trust owed \$12,500 to FCMT.

HOLLY MORTGAGE TRUST
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

**NOTE 7 - MANAGEMENT AGREEMENT AND RELATED PARTY TRANSACTIONS
(CONTINUED)**

At December 31, 2012, the Trust has an unsecured note receivable from Wilco Building Partners, Ltd. (Note 2). The note bears interest at 10% and is due monthly. Principal is due at maturity in December 2014. During 2013, the note was fully collected. At December 31, 2012, the outstanding balance on the note receivable is \$139,739. Interest income recognized in 2013 and 2012 is \$6,503 and \$15,091, respectively.

At December 31, 2013 and 2012, the Trust has a 6% mortgage note receivable due from Global (Note 2) of \$55,000, which is included in mortgage notes receivable in the balance sheets. Accrued interest receivable on the note is \$6,603 and \$3,303 at December 31, 2013 and 2012, respectively. Interest income on the note amounted to approximately \$3,300 for 2013 and 2012.

At December 31, 2012, the Trust has one outstanding mortgage note receivable with an affiliated business trust for \$920,000 net of \$3,080,000 participations payable, and is included in mortgage notes receivable, net in the balance sheets. The note receivable incurs interest at 12% and is due on demand. As of January 1, 2010, the note is on nonaccrual status. At December 31, 2012, accrued interest on the note amounted to \$0, net of participations interest payable of \$562,542. During 2013, the mortgage note, participations payable, and accrued interest were settled in foreclosure (Note 1).

NOTE 8 - FINANCIAL CONDITION

The Trust has incurred annual net losses since 2009, which has resulted in a shareholders' deficit since December 31, 2011. Further, the Trust has not been actively seeking new investment opportunities due to cash flow problems. Since the crisis in the housing market, the Trust has had problems in collecting outstanding mortgage notes receivable and accrued interest and has experienced a decline in the value of its investments. In response, the Trust is reducing its expenses and selling the land held at December 31, 2013 to Hillsborough River Properties, LLC ("HRP"), a related party through common management, for \$97,500 in cash and 200 HRP units valued at \$99,423. The sale is expected to be completed in 2014. The Trust is also discussing a sale of the Wilco Building that could generate a gain to A.R. Goldrick and collection of accrued interest totaling approximately \$1 million for the Trust; and the 2014 redemption requirements of the preferential shares of beneficial interest to be converted to common shares of beneficial interest or a new preferential issue at a lower dividend rate. Additionally, the Trust is anticipating the receipt of preferred return payments from one of its investments and liquidation of another investment. As a result, management believes the Trust will have sufficient resources and cash to withstand the effects of the housing market crisis and continue as a going concern entity.

NOTE 9 - SUBSEQUENT EVENTS

The Trust has evaluated subsequent events through April 9, 2014, the date the financial statements were available to be issued.

HOLLY MORTGAGE TRUST

BOARD OF TRUST MANAGERS

George Beatty, Jr.

Environmental Consultant

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

William C. Brooks

Financial Consultant

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

Josef C. Hermans

Hotel Consultant

President, Terrace Hotel Corporation

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

Kenneth A. McGaw

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

Robert W. Scharar

President, Holly Mortgage Trust

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

EXECUTIVE OFFICERS

Robert W. Scharar

President

Roberto Delgado

Vice President

Robert A. Burns

Treasurer

William B. LeVay

Secretary

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

TRANSFER AGENT

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