

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 1-K

For the fiscal year ended December 31, 2024

Commission file number 024-11640

ANDREW ARROYO REAL ESTATE, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

85-2103542

(I.R.S. Employer
Identification No.)

12636 High Bluff Drive, Suite 400
San Diego, CA

(Address of principal executive offices)

92130

(Zip Code)

Registrant's telephone number, including area code (888) 322-4368

Title of each class of securities issued pursuant to Regulation A:

Common Stock, par value \$0.001
3,571,964 common shares issued and outstanding as of filing date.

FORM 1-K ANNUAL REPORT

ANDREW ARROYO REAL ESTATE INC. d/b/a AARE
12636 High Bluff Drive, Suite 400
San Diego, CA 92130
888-32-AGENT
www.aare.com

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under "Summary", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Our Business" and elsewhere in this Annual Report on Form 1-K constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar matters that are not historical facts. In some, but not all, cases, you can identify forward-looking statements by terms such as "anticipate", "assume", "believe", "could", "estimate", "expect", "intend", "goal", "may", "might", "objective", "plan", "possible", "potential", "project", "should", "strategy", "will" and "would" or the negatives of these terms or other comparable terminology.

Our forward-looking statements may include, without limitation, statements with respect to:

1. Future services;
2. Future products;
3. The availability of, and terms and costs related to, future borrowing and financing;
4. Estimates of future sale;
5. Future transactions;
6. Estimates regarding the amount of funds we will need to fund our operations for specific periods;
7. Estimates regarding potential cost savings and productivity; and
8. Our listing or quotation, and the commencement of trading of our Common Stock, on the NASDAQ, OTC Markets or other exchanges and the timing thereof.

The cautionary statements set forth in this Annual Report on Form 1-K, identify important factors that you should consider in evaluating our forward-looking statements.

Although the forward-looking statements in this Annual Report on Form 1-K are based on our beliefs, assumptions and expectations, taking into account all information currently available to us, we cannot guarantee future transactions, results, performance, achievements or outcomes. No assurance can be made to any investor by anyone that the expectations reflected in our forward-looking statements will be attained or that deviations from them will not be material and adverse. We undertake no obligation, except as required by law, to re-issue this Annual Report on Form 1-K or otherwise make public statements updating our forward-looking statements. For the reasons set forth above, you should not place undue reliance on forward-looking statements in this Annual Report on Form 1-K.

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ITEM 1 DESCRIPTION OF BUSINESS

This discussion should be read in conjunction with the other sections of this Annual Report on Form 1-K, including "Management's discussion and analysis of financial condition and results of operations" and the Financial Statements attached and the related exhibits. The various sections of this discussion contain a number of forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties described throughout this Annual Report on Form 1-K.

Company Information

Andrew Arroyo Real Estate Inc. (the "Company", "AARE" or "We") is a nationwide American real estate company providing a comprehensive range of services, including sales, leasing, financing, investing and property management for residential, commercial, and business opportunities. Founded by Andrew Michael Arroyo, who began his real estate career in 1999, AARE has a successful track record of thousands of real estate sales, exceeding \$2.75 billion. Mr. Arroyo further expanded his expertise in 2009 by obtaining a Series 65 license and registering as a Registered Investment Advisor (RIA) in California. AARE was originally established as Andrew Arroyo Real Estate, Inc., a California corporation (AARE-CA), in 2004. On July 31, 2021, AARE-CA merged with and into Andrew Arroyo Real Estate, Inc., a Delaware corporation (AARE-DE), with AARE-DE as the surviving entity. This merger facilitated the company's re-incorporation from California to Delaware, a strategic move to prepare for nationwide expansion, capital fundraising, and a public offering. We operate under the trademark and d/b/a "AARE." Currently, AARE is licensed and registered to conduct real estate services in 25 states and the District of Columbia, and loan origination services in 4 states. The company has approximately three hundred members (agents, brokers, loan officers, managers, and staff) dedicated to smooth operations.

AARE is a mission-driven organization rooted in clear values. Our mission is to demonstrate Generous Capitalism® in the public markets by growing profits and increasing shareholder value, while also contributing to those in need and fulfilling God's will through real estate. Our vision is to "bear fruit," an investment principle signifying positive results. Our objective is to establish a global real estate corporation based on our Generous Capitalism® business model. With a twenty-year history of successful operations and strategic growth, AARE is poised to become a pioneering faith-based, purpose-driven real estate company. Our plan is to develop a Real Estate Investment Trust (REIT) and eventually list on a major public stock exchange. This achievement would offer a unique investment opportunity for faith-driven individuals and institutions, while solidifying AARE's position as a leader in ethical and principled real estate development and investment. Our unwavering commitment to our mission and vision resonates with investors seeking both financial returns and meaningful impact, distinguishing AARE as a beacon of integrity and purpose within the real estate industry.

In 2024, we developed plans to grow our investment division. The Company has monitored the marketplace nationwide and found discounted properties from the peak prices of 2022-2023 primarily in the multifamily and office property types. To date, the Company has not entered any negotiations or agreements regarding any proposed transactions but has identified several properties in California, Nevada, Arizona, Texas, Tennessee, New Mexico and Florida that meet the "discounted from peak price" criteria that the Company believes will provide value. Based on what we view as a rare opportunity to purchase commercial real estate assets at a discount (given the current economic landscape), the Company is fully focused on developing its real estate investment division. The Company is currently raising funds to (1) directly acquire real estate investment properties, (2) invest with other syndicators and partnerships nationwide who finance or acquire real estate investment properties (herein referred to as "Partner Operators"), and (3) invest in other private or publicly traded real estate investment trusts. The Company plans to elect to become a real estate investment trust (REIT). If we are successful in the transition to becoming a REIT, then the current real estate services will continue in a taxable REIT subsidiary ("TRS"). New and existing shareholders will own shares in both the REIT and the TRS.

We believe the seven (7) competitive advantages that separate our company from competitors include:

- **Culture:** Our culture is a reflection of a healthy organization with clear values that include faith, relationships, accountability, integrity, truth, honesty, trust, standards of excellence, clear communication, work-life balance, morals, ethics, loyalty, gratefulness, success and rewards. We are considered a safe harbor by our members for individuals of all walks of life during a period of history that is polarizing on the social, economic and political spectrum.

- **Equity Compensation:** We have a unique equity compensation plan that gives us the ability to recruit, retain, motivate and inspire our members. We believe we will be able to grow revenue with less capital investment required by using our stock for compensation. Providing our members with equity compensation is a unique differentiator from our peers. For real estate and loan brokerages firms, equity compensation is extremely rare, nearly non-existent in the real estate and loan origination industry. This gives our members ownership in the company and, as stakeholders, they have more incentive and motivation to grow the revenue and profits. This also reinforces our internal generosity practices within our Generous Capitalism[®] business model.
- **Multiple Revenue Streams:** Residential, commercial, lending, business opportunities, syndication and property management services all under one umbrella. This provides multiple streams of income for our agents and loan officers as well as a complete "one-stop" real estate shop for our clients.
- **Generosity Based Business Model:** Our culture is based on generosity and social responsibility during a generational change in workforce. We believe the next generation is demanding a new form of capitalism that illustrates healthy and sustainable business practices externally to the communities it serves in addition to creating jobs, profits and opportunities for its internal stakeholders. We have developed that exact business model and we call it "Generous Capitalism[®]".
- **Growth Potential:** We participate in a market that has experienced recent short-term challenges such as higher interest rates and low inventory, however, we expect the industry as a whole to experience significant long term growth throughout North America facilitated by a steady increase in new U.S. demand for housing/investments. Our diverse and complete offerings and the fact we can provide real estate and lending services in multiple segments of our market including residential, commercial, property management, business opportunities, and syndication, positions the Company to take full advantage of that growth. We have a growing sales network. We are licensed in 24 states and the District of Columbia. The Company is positioning to offer franchise opportunities in all 50 states in the U.S. and establish our sales network throughout North America that will be overseen by our team of managers and directors.
- **Experienced Executive Team:** Our focused and experienced management team is dedicated to our operation and to implementing our business strategies. Each member of the executive team has been involved with the Company for several years and has been instrumental in developing our strategy. Our success strategy and execution that was implemented in California over the last 15 years is now being replicated in major markets throughout the U.S.
- **Intellectual Property:** Our media properties coupled with the use of advanced technology leads to more market penetration and smoother operations as a company while the real estate industry as a whole transitions to the digital age. Our up-to-date media assets designed specifically for the real estate and lending market give us an edge over our competition. We believe the AARE media properties and brand name has a strong legacy dating from the launch of the California corporation in 2004, and we believe it has to this day retained a strong brand loyalty amongst clients, agents and loan officers. We are now licensed in 24 states in the U.S. and the District of Columbia and our media assets have been hand tailored to address our new digital age marketplace. Through our media properties, we have the ability to scale our communication and service offerings across the globe. We hold copyrights and trademarks that protect our intellectual property.

Alongside our competitive advantages, we believe it is our core values and beliefs that make our real estate, lending and property management services extraordinary. In addition, our management steadfastly believes that charitable giving and sharing are a vital component of a successful business. Giving and sharing are more than buzzwords at AARE. Up to twenty percent (20%) of the Company's gross profit goes to charity. Gross profit for the corporation is defined as top line revenue minus the cost of sales. Up to ten percent (10%) of the Company's net profit is donated in the form of cash contributions to charitable organizations. In addition to the Company's cash contributions, the Company's annual goal is to give up to an additional ten percent (10%) in the form of client credits and in-kind contributions to charitable organizations. We believe that with success comes the responsibility to do what we can for those less fortunate. As a result, we give charitable contributions to faith-based and secular non-profit organizations that support a variety of social improvement projects. This includes missions and ministries with significant human impact that improve our local communities, the environment, and our social well-being while demonstrating a positive form of governance. We have no intention of deviating from this policy or reducing the amount we give to charity. The charitable giving policy has been written into our Bylaws. The amount of charitable giving could have a significant impact on our bottom line and affect shareholders' earnings per share. Investors should not invest if they are not comfortable with our charitable contribution plans.

Management

Information about our management can be found in "Directors, Executive Officers and Significant Employees."

Employees

We currently have a team of fifteen (15) employees and independent contractors who are performing supervision, administrative, support, mentoring, marketing, and recruiting services plus approximately three hundred (300) real estate agents, brokers, loan officers and property managers we contract with as independent contractors and who, under the direction of our CEO and Department Directors, are assisting clients with buying, selling, financing and managing real estate properties throughout 25 states and the District of Columbia in the U.S.

As we expand our operations, we anticipate our needs will change, at which time we intend to add additional full-time employees, contractors and agencies in the areas of marketing, sales, technology, media and design.

Government & State Regulation

We are required to comply with state licensing laws and rules. The majority of these laws and rules relate to how we may broker real estate, market and/or sell properties. Real estate is regulated by each state's Real Estate Commission, which is usually appointed by the governor. The regulator's disciplinary authority is based upon violations of the state Real Estate Law and the Department or Commissioner's Regulations. Violations of real estate law can result in a suspension or revocation of the license necessary to conduct business in that state. These violations statutorily have their basis in each State's licensing and administrative laws, business and professions code, statute or chapters. There are laws in other jurisdictions worldwide in which we may broker real estate, market and/or sell properties and with which we will need to comply.

Federal legislation, including the Sarbanes-Oxley Act of 2002, has resulted in the adoption of various corporate governance measures designed to promote the integrity of the corporate management and the securities markets. Some of these measures have been adopted in response to legal requirements. Others have been adopted by companies in response to the requirements of national securities exchanges, such as the NYSE or The NASDAQ Stock Market, on which their securities are listed. Among the corporate governance measures that are required under the rules of national securities exchanges are those that address Board of Directors' independence, Audit Committee oversight and the adoption of a code of ethics. Our Board of Directors is comprised of one individual. Our CEO makes decisions on all significant corporate matters such as the approval of terms of the compensation of our CEO and the oversight of the accounting functions.

We have not yet adopted any corporate governance policies and, since our securities are not yet listed on a national securities exchange, we are not required to do so. We have not adopted corporate governance measures such as an Audit Committee or other independent committees outside of our Board of Directors as we presently do not have any independent directors. If we expand our Board membership in future periods to include additional independent Directors, we may seek to establish an Audit Committee and other committees of our Board of Directors. It is possible that if our Board of Directors included independent Directors and if we were to adopt some or all of these corporate governance measures, stockholders would benefit from somewhat greater assurances that internal corporate decisions were being made by disinterested Directors and that policies had been implemented to define responsible conduct. For example, in the absence of audit, nominating and compensation committees comprised of at least a majority of independent Directors, decisions concerning matters such as compensation packages to our senior officer and recommendations for Director nominees may be made by a majority of Directors who have an interest in the outcome of the matters being decided. Prospective investors should bear in mind our current lack of corporate governance measures in formulating their investment decisions.

Competition

Competition in the real estate industry is significant. There are more than 1 million real estate agents nationwide and more than 100,000 real estate brokerage firms. While significant competition does exist, our management believes that our products and services are demographically well positioned, top quality and unique in nature, while offering greater value. The expertise of our management combined with training, culture and the innovative nature of our marketing approach set us apart from competitors. However, there is the possibility that new competitors could seize upon our business model and produce competing products or services with similar focus. Likewise, these new competitors could be better capitalized than we are, which could give them a significant advantage over us. There is the possibility that the competitors could capture significant market share of our intended market.

Intellectual Property

We rely on a combination of trademarks and trade secrets to establish and protect our intellectual proprietary rights and may, in the future, file patents. Our intellectual property currently includes various U.S. trademarks and copyrights in the name of "Andrew Arroyo Real Estate Inc." Our trademarks relate to our company logo, as well as the following names we use in broadcasting: "Top Dollar TV[®]", "Real Cash Flow[®]", "Real Estate Insight[®]" and "Generous Capitalism[®]".

Litigation

The real estate business is known as a litigious industry, especially in certain states like California, which is one of the primary states where we conduct business. Buyers and sellers often bring claims against one another and usually attempt to name the real estate agents and brokers as parties in the claim or the suit seeking financial damages. As a result, we are regularly named in claims and litigation between buyers and sellers in the ordinary course of our business. We do not believe most of these claims will amount to any material damages being paid by us and, therefore, we will not name them individually herein. In determining whether liabilities should be recorded for pending litigation claims, we must assess the allegations and the likelihood that we will successfully defend the claim. When we believe it is probable that we will not prevail in a particular matter, we will then record an estimate of the amount of liability based, in part, on advice of outside legal counsel.

Currently, there are two outstanding claims. The first claim is a buyer in Bonsall, California who claims the seller, HOA, and property management company did not properly disclose leaks and potential mold in the unit they purchased. One of our associates has been named in the lawsuit. The Company maintains a \$1,000,000 errors and omission policy that covers the Company all the way back to June 9, 2009. In the event the Company incurs any financial liability from this claim, it will be covered under the errors and omissions policy up to \$1,000,000, per occurrence. The second claim is in litigation and is not covered under the errors and omissions policy. The claim involves an associate of the Company who purchased a personal property in Utah in a for sale by owner ("FSBO") transaction. The buyer and seller agreed to a second trust deed in the amount of \$150,000. After the close of escrow, the Company received a complaint by the seller and was notified of the financing terms of the personal FSBO transaction. The seller claims the buyer (a Company associate) did not handle the transaction properly and initiated a litigation against the buyer and the Company seeking reimbursement. The Company is working with all parties towards settlement. In a previous reporting period and filing, the Company disclosed a claim being arbitrated in San Diego, California, where a buyer desired for the sale to be rescinded and the seller to reclaim the home. This claim was settled on February 19, 2025, with the buyer and on June 30, 2025, with the seller. The case was dismissed, and the Company's E&O insurance settled the claim.

Outside of the claims above, we are not involved in any other arbitration or litigation, and our management is not aware of any pending or threatened legal actions relating to our intellectual property, conduct of our business activities, or otherwise.

Recent litigation and potential regulation could impact the real estate commissions earned by real estate agents. In October 2023, a federal jury in Kansas City, Missouri found the National Association of Realtors (NAR) and some of the largest real estate brokers in the country liable for colluding to inflate real estate commissions. The jury ordered the NAR and real estate franchises HomeServices of America and Keller Williams to pay \$1.78 billion in damages to the sellers of more than 260,000 homes in Missouri, Kansas and Illinois — the plaintiffs in the case. The defendants have announced they plan to appeal the decision. The case is among several pending lawsuits in U.S. courts confronting "buyer-broker commissions," or the amount of commissions that people selling their homes must agree to pay in order for their home to be included on a "multiple listing service" showing properties for sale in regions around the country. Two other defendants, Re/Max and Anywhere Real Estate, recently resolved claims in similar cases in Illinois and Missouri federal courts. Anywhere Real Estate planned to pay \$83.5 million, according to a post at National Association of Realtors. Re/Max said in a regulatory filing it would pay \$55 million. Both settlements are pending court approval. When the lawsuit was originally filed in 2019 it included Anywhere Real Estate and Re/Max as defendants, but they agreed to scale back their relationship with the NAR and pay a total of approximately \$139 million in damages as part of a settlement. The judge overseeing the case still has to issue a final judgement in the case, which could alter or even ban the cooperative compensation ruling nationally. Depending on the judgment, it could mean that home sellers will not be responsible for paying the commissions of both the listing and buying brokers. The Department of Justice (DOJ) has been actively involved in these litigations, settlements, and pursued their own investigations into a potential antitrust violation of NAR and other related parties.

Changes in NAR's current policies or federally mandated regulation by the DOJ could potentially reduce our commissions on residential transactions, which would constrain our growth and operational initiatives and could have a material adverse effect on our revenues, results of operations and product development efforts.

This lawsuit applies to residential real estate agent commissions and can potentially have significant impact on the current real estate brokerage operations of the Company. At this time, these lawsuits do not have any impact on the commercial real estate industry or the real estate investment industry. Therefore, in management's opinion, these lawsuits will have no impact on the Company's ability to fully develop its investment division and a real estate investment trust (REIT).

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and the related notes and other financial information included elsewhere in this Annual Report on Form 1-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this Annual Report on Form 1-K, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that reflect our current views with respect to future events and financial performance, which involve risks and uncertainties. Forward-looking statements are often identified by words like: "believe", "expect", "estimate", "anticipate", "intend", "project" and similar expressions or words that, by their nature, refer to future events. You should not place undue certainty on these forward-looking statements, which apply only as of the date of this Annual Report on Form 1-K. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or our predictions. There is limited historical financial information about us upon which to base an evaluation of our performance. We cannot guarantee we will be successful in our expansion of business operations nationwide. Our business is subject to risks inherent in the establishment of a new business enterprise including the financial risks associated with the limited capital resources currently available to us for the implementation of our business strategies. To become profitable and competitive, we must develop the business plan and execute the plan. Our management will attempt to secure financing through the issuance of our Common Stock, as described in our current Regulation A Offering Circular. Our management reserves the right to consider various other means of financing including convertible debt and debt financing and investment from institutions and private individuals.

Our financial statements are stated in United States Dollars (USD or US\$) and are prepared in accordance with United States Generally Accepted Accounting Principles (GAAP). All references to "Common Shares" refer to the Common Shares of our authorized capital stock.

Management's View of the Current Real Estate Market: The 2024-25 Real Estate Landscape

The real estate market in 2024-25 has been characterized by a complex interplay of rising interest rates, persistent inflation, and shifting consumer sentiment. While some segments have shown resilience, others have experienced significant adjustments. The overarching theme has been a transition from the hyper-growth seen in prior years to a more normalized, albeit challenging, environment. Both residential and commercial sectors have felt the impact, with distinct regional variations in performance.

Management's View of Key Market Drivers and Trends

Interest Rate Impact: The Federal Reserve's sustained efforts to combat inflation through interest rate hikes have been the most dominant factor influencing the real estate market. Higher borrowing costs have directly impacted affordability for homebuyers and increased the cost of capital for commercial developers and investors. This has led to a noticeable cooling in transaction volumes and a moderation in price appreciation. In some cases, significant depreciation has been seen, due to cap rate adjustments and ballooning debt coming due, particularly in markets that previously saw rapid increases.

Inflationary Pressures: While interest rates aim to temper inflation, the lingering effects of high inflation on construction costs, labor, and property maintenance have continued to put pressure on both developers and property owners. This has squeezed profit margins for new developments and increased operational expenses for existing portfolios.

Inventory Levels: Residential inventory levels have remained a critical bottleneck in many markets. While some new listings have emerged, the overall supply continues to lag behind demand in many desirable areas, contributing to sustained, albeit slower, price growth. In the commercial sector, the dynamic is more nuanced, with oversupply in certain office sub-markets contrasting with strong demand for industrial and specialized retail spaces.

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Consumer and Investor Sentiment: Consumer sentiment has been cautious, with potential homebuyers facing affordability challenges and uncertainty about future economic conditions. Investors, particularly in the commercial real estate space, have become more discerning, prioritizing stable income-generating assets and re-evaluating risk in a higher-interest-rate environment.

Residential Real Estate Performance: The residential market experienced a deceleration in sales activity in 2024-25 compared to previous years. While median home prices continued to appreciate nationally, the rate of appreciation slowed considerably. Regional disparities were pronounced, with some competitive markets still experiencing bidding wars, while others saw price reductions and longer days on market. Affordability remains a significant concern, especially for first-time homebuyers.

Commercial Real Estate Performance: The commercial real estate market presented a mixed picture in 2024-25. The industrial sector continued its strong performance driven by e-commerce and logistics demand. Retail, particularly experiential and necessity-based retail, showed signs of resilience. The office sector, however, faced headwinds due to persistent remote and hybrid work trends, leading to higher vacancy rates in many urban centers and a flight to quality for premium spaces. The multi-family sector saw moderating rent growth but a significant decline in property values in certain markets due to the cap rate adjustment from rising interest rates. Overall, multifamily remained a relatively stable investment due to ongoing housing demand.

Outlook and Strategic Considerations: Looking ahead, the real estate market is expected to continue navigating a period of adjustment. The trajectory of interest rates will remain a pivotal factor. We anticipate continued segmentation across property types and geographies. For the residential market, affordability challenges will likely persist, but steady demand and limited supply in many areas may prevent significant widespread price declines. In commercial real estate, strategic investments in high-demand sectors like industrial, data centers, and specialized multi-family will be crucial. Repositioning or redeveloping underperforming assets, particularly in the office and multifamily sector, will also be a key consideration. Proactive risk management, strong liquidity positions, and adaptable business models will be essential for navigating the evolving market dynamics in the coming years.

Results of Operations for Year Ended December 31, 2024 Compared to Year Ended December 31, 2023

Summary of Results of Operations

	Year Ended December 31,	
	2024	2023
Revenue	\$ 7,127,922	\$ 7,609,767
Cost of Sales	6,139,251	6,629,745
Gross Profit	988,671	980,022
Operating expenses:		
General and administrative	1,530,188	1,630,392
Total operating expenses	1,530,188	1,630,392
Operating loss	(541,516)	(650,370)
Other income (expense)		
Total other income, net	(19,191)	160,649
Net loss before income tax	(560,707)	(489,721)
Income tax expense	(2,936)	(5,486)
Net loss	\$ (563,644)	\$ (495,207)

Gross Profit

Our gross profit increased by \$8,649 from \$980,022 to \$988,671 from the year ended December 31, 2023 compared to the year ended December 31, 2024. Our increase in gross profit was largely due to an increase to our gross margins year over year. We expect our gross profit will grow in periods when there is property price expansion and decrease in periods of recession.

Operating Loss; Net Loss

Our net loss increased by \$68,437 from (\$495,207) to (\$563,644) from the year ended December 31, 2023 compared to the year ended December 31, 2024. Our operating loss decreased by \$108,854 from (\$650,370) to (\$541,516) for the same periods. Our lower general and administrative expenses led to the decrease in our operating loss.

Revenue

Our revenue decreased by \$481,845 from \$7,609,767 to \$7,127,922, from the year ended December 31, 2023 compared to the year ended December 31, 2024. Our decrease in revenue was largely due to lower transaction volume, largely a result of low inventory and rising interest rates. We expect our revenues will grow in periods when there is property price expansion and decrease in periods of recession.

Cost of Sales

Our cost of sales decreased by \$490,494 from \$6,629,745 to \$6,139,251, from the year ended December 31, 2023 compared to the year ended December 31, 2024. The decrease in cost of sales was largely due to decreases in payments to real estate agents, transaction coordinators, referral fees, property management fees paid, and charitable contributions. We expect our cost of sales will grow in periods when there is property price expansion and decrease in periods of recession.

General and Administrative Expenses

General and administrative expenses decreased by \$100,206 from \$1,630,392 for the year ended December 31, 2023 to \$1,530,188 for the year ended December 31, 2024, primarily due to minimizing the costs and fees associated with our nationwide expansion and eliminating costs that are not essential support services needed by our real estate associates. We expect to have costs related to expansion and additional real estate associates at times of expansion. We do not expect to have costs related to securities offerings except in periods we conduct an offering of our securities.

Other Income (Expense)

We had other income of \$160,649 for the year ended December 31, 2023, and other expense of (\$19,191) for the year ended December 31, 2024. For the period in 2023 our other expense related to interest expense of \$37,503, dividend income of \$3,888, Employee Retention Credit (ERC) of \$184,300, tax refund of \$186, other income of \$8,730 and the gain on sale of (\$1,048) from the sale of equipment. For the period in 2024 our other expense related to interest expense of \$29,711, dividend income of \$1,722, gain on lease extinguishment of \$1,065, and the gain on sale of (\$7,733) from the sale of equipment.

Liquidity and Capital Resources for Year Ended December 31, 2024 Compared to Year Ended December 31, 2023

We anticipate that our core operations, which are those related to our current residential and commercial brokerage, property management and lending services, can be funded through the income and cash flow generated by those services. Although we are currently able to fund our core operations through the revenue generated from those operations, there is no guarantee we will be able to do so in the future. Additionally, in order to cover our expenses related to our prospective plans to become a publicly-traded company and to develop a real estate investment trust (REIT) business segment, we will need to raise substantial funds through offerings of our securities, likely through Regulation A offerings. As of June 30, 2025, we have \$883,376 in unrestricted cash and cash equivalents and \$443,624 in notes payable, net of current portion of which approximately \$300,000 is due to a related party. Therefore, based on the projected income and cash flow generated by our current residential and commercial brokerage, property management and lending services business, plus the cash we have on hand and our plans to offer securities, we anticipate having enough liquidity to fund our existing current residential and commercial brokerage, property management and lending services business for the next 12 months. We have no current commitments for capital expenditures and had no commitments for capital expenditures as of the end of the latest fiscal year and any subsequent interim period through June 30, 2025. Currently, we use our capital resources to primarily fund operating costs and, when appropriate, to pay down debt or make charitable contributions. We plan to use any free cash flow, retained earnings, or proceeds from the sale of common stock to grow our existing brokerage services business by continuing to expand our service operations nationwide, and to grow our investment business by acquiring income producing properties for the REIT under development. In the event we are not successful in raising funds through the sale of our securities we may not be able to grow our existing brokerage services business and/or develop our prospective REIT business.

During the years ended December 31, 2024 and 2023, we generated negative cash flows from operations. Our cash on hand as of December 31, 2024 was \$545,437, and our cash flow used in operations was (\$422,068) for the year then ended. Our cash, current assets, total assets, current liabilities, and total liabilities as of December 31, 2024 and December 31, 2023, respectively, are as follows:

	December 31, 2024	December 31, 2023	Change
Cash	\$ 545,437	\$ 160,540	\$ 384,897
Total Current Assets	\$ 1,442,221	\$ 589,125	\$ 749,334
Total Assets	\$ 1,602,662	\$ 853,328	\$ 751,584
Total Current Liabilities	\$ 1,318,753	\$ 881,046	\$ 437,707
Total Liabilities	\$ 1,849,935	\$ 1,406,219	\$ 443,716

Our current assets increased as of December 31, 2024, as compared to December 31, 2023, primarily due to us having more cash and cash equivalents from our capital raise, as well as more other assets, consisting of property management deposits. The increase in our total assets between the two periods is primarily related to us having more cash and current assets from our capital raise, and increases in property management deposits at December 31, 2024 compared to December 31, 2023.

Our current liabilities increased as of December 31, 2024, as compared to December 31, 2023. This increase was primarily due to the recognition of \$385,000 in legal accruals and an increase in accounts payable, partially offset by lower other current liabilities.

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Sources and Uses of Cash

Operating Activities

We had net cash used in operating activities of (\$422,068) for the year ended December 31, 2024, as compared to net cash used in operating activities of (\$180,669) for the year ended December 31, 2023 (*revised*). In 2024, the net cash provided by operating activities consisted primarily of our net loss of (\$563,644), adjusted by depreciation and amortization of \$20,499, gain on sale of property and equipment of (\$7,733), change in stock based compensation of \$46,166, change in noncash operating lease costs of \$37,957, change in accrued interest on loans of \$11,182, change in accounts receivable of \$21,155, change in other current assets of \$3,735, change in an insurance receivable of (\$385,000), change in accounts payable of \$113,875, change in accrued liabilities of (\$8,583), change in a legal liability accrual of \$385,000, change in other current liabilities of (\$58,273), gain on lease extinguishment of (\$1,065), and change in operating lease liabilities of (\$37,339). In 2023 (*revised*), the net cash provided by operating activities consisted primarily of our net loss of (\$495,207), adjusted by depreciation and amortization of \$28,709, gain on sale of property and equipment of (\$1,049), change in noncash operating lease costs of \$32,468, change in accrued interest on loans of \$7,518, change in accounts receivable of \$6,721, change in other current assets of \$14,223, change in accounts payable of \$34,350, change in accrued liabilities of (\$430), change in other current liabilities of \$222,554 and change in operating lease liabilities of (\$30,525).

Investing Activities

Our cash used for investing activities during the year ended December 31, 2024 was \$10,198, compared to \$1,049 during the year ended December 31, 2023. For the period in 2024, the cash used for investment activities related to the net proceeds on the sale of property and equipment of \$10,198. For the period in 2023, the cash used for investment activities related to the net purchases of property and equipment of \$1,049.

Financing Activities

Our net cash provided by financing activities for the year ended December 31, 2024 was \$879,037, compared to \$222,521 for the year ended December 31, 2023. For the year ended December 31, 2024, our net cash provided by financing activities consisted of repayment on auto loan of (\$9,531), repayment on a Small Business Administration ("SBA") loan of (\$3,315), proceeds on related party note of \$79,000, proceeds on a line of credit of (\$4,394), and cash from sales of common stock of \$823,096. For the year ended December 31, 2023, our net cash provided by financing activities consisted of repayment on auto loan of (\$6,893), repayment on a SBA loan of \$7,219, proceeds on related party note of \$40,000, proceeds on a line of credit of (\$1,608), and cash from sales of common stock of \$183,803.

Off Balance Sheet Arrangements

We have no off balance sheet arrangements as of December 31, 2024 and December 31, 2023.

Seasonal Cash Flow

Property sales in our real estate services business is seasonal. Our property management cash flow stays fixed year-round as long as we maintain our current management contracts. The majority of property sales occur between March and September each year. Cash flow is normally strong during these months and typically offers a surplus. During the season between October and December, sales traditionally slow down but the cash flow is adequate to cover fixed expenses and overhead. The low season is January to February and usually runs a deficit, which requires the use of capital reserves or credit lines to sustain payroll and fixed overhead costs during these months before the spring selling season begins.

Capital Expenditures

We have not made any major capital expenditures in 2025 and do not anticipate any near-term capital expenditures for our operational purposes in the next twelve months. However, our Regulation A offerings to raise capital to invest in commercial real estate properties and develop a real estate investment trust is successful, we will have capital expenditures in the form of real estate acquisitions.

Contractual Obligations

We have very few contractual obligations. We have two long-term leases (2 year terms). The majority of our vendors, utilities and service providers are on month-to-month agreements; however, there are a few utilities and service providers that are on an annual contract that renews each year.

Debt

We have one Small Business Administration ("SBA") loan for \$150,000. The SBA loan is a 30-year loan at 3.75% interest. We may elect to pay this loan off in full or retain the loan. We also have fluctuating line of credit for cash flow purposes with Wells Fargo Bank in the amount of approximately \$75,000. Investors should be aware that funds utilized from Regulation A offerings for debt retirement will not be available to support our growth.

Inflation has been rising. The effect of inflation on our revenues and operating results have not been significant. The rise in inflation has affected the long-term interest rates, which directly affect borrowing costs for mortgages, and in turn may affect property sales and our ability to earn commission. The current interest rate environment is higher than the low interest rates experienced in the past few years.

Related Party Note

Through December 31, 2024, the Company spent approximately \$300,000 on the costs related its Regulation A offerings, which was loaned to the Company by the CEO, Andrew Michael Arroyo. The terms of the promissory note are interest payable on the unpaid principal at the rate of 4% per annum.

Restatement of Prior Year Reported Amounts

In the Company's 1-K filing as of and for the year ended December 31, 2023, management included Series A preferred shares in its fully diluted loss per share. The preferred shares should have been excluded from the calculation, as the Company had reported a net loss for the year ended December 31, 2023, and inclusion of the preferred shares are anti-dilutive. The earnings per share disclosure has been corrected for the years ended December 31, 2024 and 2023 as reported in this 1-K. See Note 2 in the financial statements section below.

In the Company's 1-K filing as of and for the year ended December 31, 2023, restricted cash was presented as other current assets on the balance sheet and restricted cash was omitted from the statement of cash flows. Management has corrected this on the accompanying balance sheet for 2024 and 2023 by presenting restricted cash on the balance sheet. Management has also presented a restated 2023 statement of cash flows that reconciles cash flows to cash and cash equivalents and restricted cash. See Note 2 in the financial statements section below.

Controls and Procedures

With the participation of our Chief Executive Officer, management evaluated our disclosure controls and procedures as of December 31, 2024. Based on that evaluation, management concluded they were not effective due to the material weaknesses in internal control over financial reporting described below. Disclosure controls can provide only reasonable assurance and involve judgment. Notwithstanding these weaknesses, management concluded the financial statements included in this Form 1 K are fairly stated, in all material respects, in accordance with U.S. GAAP.

Management's Discussion of Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate ICFR. Using the COSO 2013 framework, management evaluated ICFR as of December 31, 2024—and, in connection with the audits of our consolidated financial statements for the years ended December 31, 2024 and 2023, identified material weaknesses. These principally relate to:

- (i) limited accounting resources and segregation of duties constraints;
- (ii) entity level control design and oversight gaps;
- (iii) risk assessment and management review/activity level control deficiencies, including issues with the completeness and accuracy of information used in controls; and
- (iv) weaknesses in IT general controls supporting financial reporting.

Regulation A (Tier 2) does not require a management report on ICFR or an auditor attestation; the discussion above is provided to summarize the identified material weaknesses, and no auditor attestation is provided. Management has begun remediation, including adding/outourcing accounting expertise, formalizing policies and documentation, enhancing review and information technology controls, and improving segregation of duties.

Plan of Operations

Our plan is to continue to expand our service operations nationwide and execute our investment services business strategy. Below are the key milestones the Company is aiming towards. It is the opinion of our management that if we are successful in raising funds through the sale of equity, the proceeds from our Regulation A offerings are expected to satisfy our need for liquidity and cash requirements for the foreseeable future and put us in a position to grow our business in accordance with our business plan, outlined below:

Investment Division Milestones:

1. Milestone 1: Formation of a Real Estate Investment Trust (REIT) and Hire Key Personnel

Continue the formation of a REIT and hire investment managers to supervise and oversee the portfolio of commercial real estate assets and partnership interests that we plan to acquire with the proceeds of this offering.

2. Milestone 2: Acquire Commercial Real Estate Assets and Invest with Partner Operators

Identify and acquire discounted commercial real estate assets and partnerships interests producing income.

3. Milestone 3: Ongoing Growth through Strategic Acquisitions and Partnership Investments

Continue to grow the portfolio of assets through strategic acquisitions and Partner Operator investments.

Service Division Milestones:

1. Milestone 1: Continued Expansion Nationwide and International Research and Development

Continue to expand our services operations nationwide and explore international countries that meet our target market requirements and that will adopt our business model.

2. Milestone 2: Continued Training of our Existing Members and Mentorship for New Members

Ongoing training utilizing our proprietary method "7 Steps to Powerful Paychecks" in all markets we serve and mentorship for new members graduating colleges and universities nationwide.

3. Milestone 3: Appoint Regional and State Supervisors Domestically to Prepare for International Launch

Continue to recruit, hire and appoint operational managers to supervise and oversee the service-related members that join our Company.

ITEM 3 DIRECTORS, EXECUTIVE OFFICERS AND SIGNIFICANT EMPLOYEES

The following table lists the current Directors, Officers and significant employees of the Company. Our plan is to add other top-level positions in the future that will help the company grow.

Directors, Executive Officers and Significant Employees

Name ¹	Position	Age	Term of Office ²	Approximate Hours Per Week
Andrew Arroyo	Chairman of the Board, CEO, Director	48	1/1/2004	40
Nick Bonner ⁽³⁾	Investment Director	42	3/1/2024	40
Clark Anctil	Treasurer, Financial Director	61	10/1/2017	30
Tiffany Mohler	Secretary, Administration Director	43	6/1/2017	30

¹ All addresses shall be considered 12636 High Bluff Dr. Suite 400, San Diego, CA 92130.

² Includes time worked with AARE-CA.

³ Mr. Bonner is an independent contractor of AARE.

Directors

Our Board of Directors is currently composed of one director, Andrew Michael Arroyo. If we are successful in raising funds through the sale of equity, our plan is that we will expand our Board of Directors to three to seven members.

Executive Officers

Chairman of the Board, Director and Chief Executive Officer

Andrew Michael Arroyo is our Chairman of the Board of Directors and Chief Executive Officer. He is personally licensed as a managing broker in 24 states and the District of Columbia and has been a part of more than a billion dollars in real estate transactions in his 26-year career in the real estate industry. As CEO, Mr. Arroyo is responsible for representing the best interests of the Company and its shareholders. He is responsible for creating and implementing strategies to grow the business and brand by developing business relationships and alliances, pursuing corporate opportunities, as well as assisting with oversight and management of the day-to-day operations. During the last five years, Mr. Arroyo has served as CEO of AARE from 2004-2025, Managing Member of Andrew Arroyo Investments, LLC from 2010-2025, Managing Member of Neighborhood Investment Network, LLC from 2016-2025, Director of AMA Media Inc. from 2025 and Director of Eye of a Needle Foundation Inc. from 2012-2025.

Investment Director

Nick Bonner has worked in commercial real estate since 2004 operating in the roles of loan production, investor, asset manager, and broker, including 16 years at CBRE. In his brokerage career alone, he has completed over 1,000 lease and sale transactions of more than 4.5M square feet for a total consideration of nearly \$900M. He has regularly advised sophisticated institutional owners, such as Equity Office Properties and Kilroy Realty, on complex transactions as well as overall asset strategy on properties valued in upwards of \$250M. In his investment career, he has completed over three dozen deals in a broad range of areas with a focus in real estate. He is well known as a thought leader in faith driven real estate investing, has published white papers, and is regularly sought out as a speaker on the topic. Mr. Bonner is also a founding board member of the Pinetops Foundation where he has managed the investments for a sizable portfolio and deployed over 500 grants in the last 13 years. He has also volunteered on various nonprofit boards in the microfinance space as well as with his church elder board for 10 years. Nick founded Open Doors, a mission driven commercial real estate syndicate specifically designed to lower the real estate barriers for churches and he is delighted to employ his God-given knowledge, skill set, and extensive network for AARE in order to carry out the vision for the REIT. Above all, Nick is known for his integrity and dependability, and he is grateful to be able to leverage his diverse background for good. During the last five years, Mr. Bonner has served as Investment Director of AARE since 2024 as an independent contractor, First Vice president of CBRE, a real estate firm, from 2008 to 2024, Managing Member of Open Doors Centers, LLC from 2019 to 2025 and Director of The Pinetops Foundation from 2011 to 2025.

Treasurer, Financial & Operations Director

Clark Ancil is a seasoned financial executive with a broad range of experience with positions in financial reporting, general management, operations and supply chain management, covering responsibilities of product costing, material and resource planning, procurement and sourcing, HR training and development, information systems, twin plant operations, "Just in Time" manufacturing, "lean systems", and facility design and engineering. During his career, he has mentored staff and trained teams in achieving results and effective management with a focus on knowledge acquisition, understanding and proactive execution in a lean environment. This approach led him to develop and deploy software to support business growth covering material, labor and resource planning, operational cost tracking, throughput management and production control. In addition to his corporate career, he has been a top producing real estate professional since 2010 and licensed loan originator since 2020, and currently holds a broker's license in the state of California. He joined AARE as a sales agent in 2017 and has worked closely with the founder of AARE throughout the years. Clark has a heart to mentor and train other employees how to grow a business with the stakeholder's interest in mind. His depth of experience and hands-on approach provide a unique skill set and make him a valuable member of the AARE financial and operations team. During the last five years, Mr. Ancil has served as Financial and Operations Director of AARE since 2023, Loan Originator of Merchants Home Lending Inc. from 2020 to 2025 and CEO of CSD Equity Group, Inc from 2012 to 2025.

Secretary, Administration Director

Tiffany Mohler holds a degree in Business Administration from San Diego State University, and her education has served her well. As the Administration Director, Mrs. Mohler is in charge of compliance and risk management and handles setup and training for all managing brokers, agents and property managers nationwide. Her leadership qualities and peacemaking nature make her a natural for dealing with diverse personalities and situations. Mrs. Mohler has been involved in real estate administration since 2002. In 2008, she became a licensed administrator. In 2013, she joined AARE. She grew within the organization to become a leader and ultimately to become a full-time employee in 2017 by accepting the role of designated broker in California and the nationwide role of Administration Director. During the last five years, Mrs. Mohler has served as Administration Director of AARE from 2017 to 2025.

There are no arrangements or understandings between our executive officers and directors and any other persons pursuant to which the executive officer or director was selected to act as such. There are no family relationships between our executive officers.

ITEM 3A. COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The following is a discussion and analysis of compensation arrangements of our named Directors and Executive Officers. This discussion contains forward-looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. Actual compensation programs that we adopt may differ materially from currently planned programs as summarized in this discussion. As an "emerging growth company" as defined in the JOBS Act, we are not required to include a Compensation Discussion and Analysis section and have elected to comply with the scaled disclosure requirements applicable to emerging growth companies.

Our Compensation Committee, who will be appointed by our Board, will be responsible for establishing, implementing and monitoring our compensation philosophy and objectives. We seek to ensure that the total compensation paid to our Executive Officers is reasonable and competitive. Compensation of our executives is structured around the achievement of individual performance and near-term corporate targets as well as long-term business objectives.

The following tables set forth certain information about compensation paid, earned or accrued for services by (i) the Company's Chief Executive Officer and (ii) all other executive officers who earned in excess of \$100,000 in the years ended December 31, 2024 and 2023 ("Named Executive Officers"):

SUMMARY COMPENSATION TABLE⁽¹⁾

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Andrew Michael Arroyo, CEO	2024	135,000	-0-	1,374	-0-	-0-	-0-	-0-	136,374
	2023	135,006	-0-	-0-	-0-	-0-	-0-	53,484	188,490
Clark Anctil, Treasurer, Financial Director ⁽¹⁾	2024	-0-	-0-	2,061	-0-	-0-	-0-	126,307(2)	128,368(2)
	2023	-0-	-0-	-0-	-0-	-0-	-0-	145,998(2)	145,998(2)
Tiffany Mohler, Secretary, VP Administration	2024	84,398	-0-	1,001	-0-	-0-	-0-	18,625	104,027
	2023	58,028	-0-	-0-	-0-	-0-	-0-	31,110	89,138

(1) Mr. Anctil was appointed to the position of Financial Director on June 1, 2022 and was appointed to the position of Treasurer on December 5th, 2023.

(2) All amounts were paid for consulting fees and real estate commissions.

The following table sets forth Director compensation for 2024⁽¹⁾:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Andrew Michael Arroyo	-0-	-0-	-0-	-0-	-0-	-0-	-0-

(1) Includes amounts paid by AARE-CA.

Anticipated Future Executive Compensation

If we are successful in raising funds from the sale of our equity, the Board of Directors will determine the appropriate compensation plans and programs for our executives. Our Board of Directors will review and evaluate our executive compensation plans and programs to ensure they are aligned with our compensation philosophy. In addition, our Board of Directors may retain its own compensation consultant to advise it in its compensation planning decisions.

We expect revised compensation plans and arrangements for our named Executive Officers that will generally become effective upon raising sufficient funds in Regulation A offerings to consist generally of an annual base salary, a short-term annual incentive component, a long-term incentive (equity awards) component, and health and retirement benefits component.

We have established an equity compensation plan for our management, real estate brokers, agents, managers, loan officers, advisors, consultants and other employees.

Agreements with our Named Executive Officers

Our current employment agreements provide for an annual salary, potential bonus based on performance, participation in a 401(k) plan through Safe Harbor, and 10 days (or two weeks) paid vacation time after the vesting period is complete. We sponsor a defined contribution 401(k) plan covering substantially all qualified employees whereby participating employees may elect to defer a portion of their salary. For eligible employees, we provide a contribution equal to 100% of the eligible employees' contribution up to the first 3% of their eligible pay in compliance with Safe Harbor. Expenses for contributions to the plan during the year ended December 31, 2024, was approximately \$14,439.

No other matching contributions were made during the year ended December 31, 2024.

If we are successful in raising substantial funds through the sales of our equity, we plan to revise our employment agreements to provide for an annual salary, potential bonus based on performance, equity grant (based on grant date fair market value) in stock options, restricted stock or other form of equity award as determined by the Board of Directors. We expect these awards will be granted under the 2023 Plan. Each executive will also receive employee benefits made available to our other employees, including, without limitation, participation in any 401(k) plan, 10 days (or two weeks) paid vacation time, prorated based on actual hours worked, and a monthly contribution towards a health plan.

All related party transactions described in this section occurred prior to adoption of this policy and, as such, these transactions were not subject to the approval and review procedures set forth in the policy.

ITEM 4 SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN SECURITY HOLDERS

The following table sets forth, as of September 15, 2025, certain information with respect to our equity securities owned of record or beneficially by (i) each of our Officers and Directors; (ii) each person who owns beneficially more than 5% of each class of our outstanding equity securities; and (iii) all Directors and Executive Officers as a group.

Common Stock⁽¹⁾

Name and Address of Beneficial Owner⁽²⁾	Nature of Beneficial Ownership	No. of Shares	Percent of Class	Percent of Total Voting Rights⁽⁴⁾
Andrew Michael Arroyo ⁽²⁾⁽³⁾	CEO, Chairman and a Director	2,775,120	77.69%	28.99%
Clark Anctil ⁽²⁾⁽³⁾	Treasurer and Financial Director	6,860	<1%	<1%
Tiffany Mohler ⁽²⁾⁽³⁾	Treasurer and Administration Director	8,397	<1%	<1%
Nick Bonner ⁽²⁾⁽³⁾	Investment Director	25,000	<1%	<1%
All Officers and Directors as a Group (4 persons)		2,815,377	79.37%	29.49%

(1) As of September 15, 2025 there were 3,571,964 shares of common stock outstanding. Shares of common stock subject to options or warrants currently exercisable, or exercisable within 60 days, are deemed outstanding for purposes of computing the percentage of the person holding such options or warrants but are not deemed outstanding for the purposes of computing the percentage of any other person.

(2) Indicates an officer and/or Director of the Company.

(3) Unless indicated otherwise, the address of the shareholder is Andrew Arroyo Real Estate Inc., 12636 High Bluff Drive, Suite 400, San Diego, CA 92130.

(4) Calculated based on the total votes currently outstanding (does not include votes from shares underlying promissory notes, options or warrants). As of September 15, 2025, there was a total of 9,571,964 votes outstanding, consisting of 3,571,964 votes from common stockholders and 6,000,000 votes from Series A Preferred Stock holders.

Series A Preferred Stock⁽¹⁾

Name and Address of Beneficial Owner⁽²⁾	Nature of Beneficial Ownership	No. of Shares	Percent of Class	Percent of Total Voting Rights⁽⁴⁾
Andrew Michael Arroyo ⁽²⁾⁽³⁾	CEO, Chairman and a Director	2,000,000	100.0%	62.68%
Clark Anctil ⁽²⁾⁽³⁾	Treasurer and Financial Director	-0-	0%	0%
Tiffany Mohler ⁽²⁾⁽³⁾	Secretary and Administration Director	-0-	0%	0%
Nick Bonner ⁽²⁾⁽³⁾	Investment Director	-0-	0%	0%
All Officers and Directors as a Group (4 persons)		2,000,000	100.0%	62.68%

(1) As of September 15, 2025 there were 2,000,000 shares of Series A Preferred Stock outstanding (each share has three (3) votes on all matters presented to the common stockholders for a vote, and converts into one (1) share of common stock). Shares of preferred stock subject to options or warrants currently exercisable, or exercisable within 60 days, are deemed outstanding for purposes of computing the percentage of the person holding such options or warrants but are not deemed outstanding for the purposes of computing the percentage of any other person.

(2) Indicates an officer and/or director of the Company.

(3) Unless indicated otherwise, the address of the shareholder is Andrew Arroyo Real Estate Inc., 12636 High Bluff Drive, Suite 400, San Diego, CA 92130.

(4) Calculated based on the total votes currently outstanding (does not include votes from shares underlying promissory notes, options or warrants). As of September 15, 2025, there was a total of 9,571,964 votes outstanding, consisting of 3,571,964 votes from common stockholders and 6,000,000 votes from Series A Preferred Stock holders.

Transactions with Related Persons, Promoters and Certain Control Persons; Corporate Governance

Through December 31, 2024, we spent approximately \$300,000 on the costs related through Regulation A offerings, which was loaned to the Company by our CEO. The terms of the promissory note are interest payable on the unpaid principal at the rate of 4% per annum. Principal and interest began accruing beginning February 1st, 2022 until the end of the repayment period which is June 29, 2027, at which time all principal and interest will be due, unless paid off sooner or mutually extended by the parties.

Mr. Anctil, our Financial Director and Treasurer, acts as a real estate professional for the Company and receives consulting fees and real estate commissions for these services.

ITEM 5 INTEREST OF MANAGEMENT AND OTHERS IN CERTAIN TRANSACTIONS

Our Board will adopt a written related person transaction policy, to be effective once sufficient fund have been raised, setting forth the policies and procedures for the review and approval or ratification of related person transactions, which will generally include transactions involving the Company and our Directors, Executive Officers, nominees for director, beneficial owners of more than five percent of our common stock and members of the immediate families of the foregoing. This policy will provide that transactions involving related persons are approved, or ratified if pre-approval is not feasible, by our Audit Committee, which approves or ratifies the transaction only if our Audit Committee determines that it is in the best interests of our stockholders. In considering the transaction, our Audit Committee considers all relevant factors, including, as applicable (i) the business rationale for entering into the transaction; (ii) available alternatives to the transaction; (iii) whether the transaction is on terms no less favorable than terms generally available to an unrelated third party under the same or similar circumstances; (iv) the potential for the transaction to lead to an actual or apparent conflict of interest and any safeguards imposed to prevent such actual or apparent conflicts; and (v) the overall fairness of the transaction. Our Audit Committee will also periodically monitor ongoing transactions involving related persons to ensure that there are no changed circumstances that would render it advisable to amend or terminate the transaction.

All related party transactions described in this section occurred prior to adoption of this policy and, as such, these transactions were not subject to the approval and review procedures set forth in the policy.

Relaxed Ongoing Reporting Requirements

The Company's prior Form 1-A was qualified by the SEC, and, as a result, we are required to publicly report on an ongoing basis under the reporting rules set forth in Regulation A issuers. The ongoing reporting requirements under Regulation A are more relaxed than for emerging growth companies under the Exchange Act. The differences include, but are not limited to, being required to file only annual and semi-annual reports, rather than annual and quarterly reports. Annual reports are due within 120 calendar days after the end of the issuer's fiscal year, and semi-annual reports are due within 90 calendar days after the end of the first six months of the issuer's fiscal year.

In either case, we will be subject to ongoing public reporting requirements that are less rigorous than Exchange Act rules for companies that are not emerging growth companies, and our stockholders could receive less information than they might expect to receive from more mature public companies.

DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Section A of Article VI of our Articles of Incorporation provides that, to the fullest extent permitted by law, no director or officer shall be personally liable to the corporation or its shareholders for damages for breach of any duty owed to the corporation or its shareholders.

Section B of Article VI of our Articles of Incorporation provides that, to the fullest extent permitted by the General Corporation Law of the State of Delaware we will indemnify our officers and directors from and against any and all expenses, liabilities, or other matters.

Article IX of our Amended and Restated Bylaws further addresses indemnification of our directors and officers and allows us to indemnify our directors and officers in the event they meet certain criteria in terms of acting in good faith and in an official capacity within the scope of their duties, when such conduct leads them to be involved in a legal action.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

ITEM 6 OTHER

In 2025, the Company continued to raise funds from investors through its Regulation A offerings.

In 2024 and in the first and second quarter of 2025, the Company developed plans to grow its investment division. Based on significant recent changes in the residential real estate brokerage industry coupled with the rare opportunity to purchase commercial real estate assets at a discount (given the current economic landscape), the Company is fully focused on developing its real estate investment division through a forthcoming Regulation A offering. If the offering is successful, the Company plans to elect to become a real estate investment trust (REIT). If the Company is successful in the transition to becoming a REIT, then the current real estate brokerage operations will continue in a taxable REIT subsidiary ("TRS"). New and existing shareholders will own shares in both the REIT and the TRS.

In July 2025, the Company engaged Dealmaker Securities as a broker-dealer to assist with its forthcoming equity raise through a Regulation A offering in connection with its plan to develop a real estate investment trust (REIT).

ITEM 7 FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

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ANDREW ARROYO REAL ESTATE, INC.
DECEMBER 31, 2024 AND 2023

ANDREW ARROYO REAL ESTATE, INC.

DECEMBER 31, 2024 AND 2023

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Andrew Arroyo Real Estate, Inc.,

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Andrew Arroyo Real Estate, Inc. (the Company or AARE) as of December 31, 2024 and 2023, and the related statements of operations, stockholders' deficit and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the financial statements present fairly, in all material respects, the financial position of Andrew Arroyo Real Estate, Inc. as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to Andrew Arroyo Real Estate, Inc. in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. AARE is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Restatement of Previously Issued Financial Statements

As discussed in Note 2 to the financial statements, the Company has restated its 2023 financial statements to correct diluted earnings per share, the presentation of restricted cash on the balance sheet and statement of cash flows, and correct the statement of cash flows for non-cash activity previously reported as operating activities.

/s/ Ramirez Jimenez International CPAs

We have served as the auditors since 2023

Irvine, California

September 22, 2025

PCAOB ID #820

ANDREW ARROYO REAL ESTATE, INC.
BALANCE SHEETS
December 31, 2024 and 2023

	2024	2023 As restated
ASSETS		
Current assets		
Cash and cash equivalents	\$ 545,437	\$ 160,540
Restricted cash	442,350	354,261
Accounts receivable, net	40,628	61,783
Insurance receivable	385,000	-
Other current assets	8,806	12,541
Total current assets	1,422,221	589,125
Property and equipment, net	50,511	69,835
Right of use asset	122,046	182,844
Noncurrent assets	7,884	11,524
TOTAL ASSETS	\$ 1,602,662	\$ 853,328
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	\$ 219,412	\$ 105,537
Accrued liabilities	85,075	93,658
Accrued interest	23,698	12,156
Other current liabilities	478,818	537,451
Accrued legal liability	385,000	-
Current portion of notes payable	13,229	12,909
Current portion of operating lease liabilities	44,139	45,559
Lines of credit	69,382	73,776
Total current liabilities	1,318,753	881,046
Long term liabilities		
Notes payable, net of current portion	446,234	380,400
Long term operating lease liabilities, net of current portion	84,948	144,773
Total long term liabilities	531,182	525,173
Total Liabilities	1,849,935	1,406,219
Commitments and Contingencies (See note 11)	-	-
Deficit		
Common Stock, \$.001 par value; 25,000,000 shares authorized, 3,443,566 issued and outstanding as of December 31, 2024 and 3,203,220 issued and outstanding as of December 31, 2023.	3,440	3,202
Preferred Stock, (\$.001 par value; 3,000,000 shares authorized, no shares issued and outstanding as of December 31, 2024 and December 31, 2023.	-	-
Series A Convertible Preferred Stock, \$.001 par value; 2,000,000 shares authorized, and outstanding as of December 31, 2024 and December 31, 2023.	2,000	2,000
Additional paid-in capital	1,885,625	1,016,601
Accumulated deficit	(2,138,338)	(1,574,694)
Total stockholders' deficit	(247,273)	(552,891)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 1,602,662	\$ 853,328

See accompanying notes to the financial statements.

ANDREW ARROYO REAL ESTATE, INC.
STATEMENTS OF OPERATIONS
Years Ended December 31, 2024 and 2023

	2024	2023 As restated
Revenues	\$ 7,127,922	\$ 7,609,767
Cost of sales	6,139,251	6,629,745
Gross profit	988,671	980,022
General and administrative expenses	1,530,188	1,630,392
Loss from operations	(541,517)	(650,370)
Other income (loss)	(19,191)	160,649
Loss before income tax expense	(560,708)	(489,721)
Income tax expense	2,936	5,486
Net loss	<u>\$ (563,644)</u>	<u>\$ (495,207)</u>
Loss per share (basic and diluted)	<u>\$ (0.17)</u>	<u>\$ (0.16)</u>
Weighted-average number of common shares outstanding used in computing per share amounts, basic and diluted	<u>3,297,002</u>	<u>3,189,948</u>

See accompanying notes to the financial statements.

ANDREW ARROYO REAL ESTATE, INC.
STATEMENTS OF STOCKHOLDERS' DEFICIT
Years Ended December 31, 2024 and 2023

	Common Stock Shares Issued	Common Stock Par	Preferred Stock Shares Issued	Preferred Stock Par	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
Balance - December 31, 2022	3,180,460	\$ 3,180	2,000,000	\$ 2,000	\$ 832,820	\$ (1,079,487)	\$ (241,487)
Stock issued for cash	22,760	22	-	-	183,781	-	183,803
<i>Net Loss</i>						(495,207)	(495,207)
Balance - December 31, 2023	3,203,220	\$ 3,202	2,000,000	\$ 2,000	\$ 1,016,601	\$ (1,574,694)	\$ (552,891)
Stock issued for cash	164,622	164	-	-	822,932	-	823,096
Stock issued for vested RSU and RSA	75,724	74	-	-	46,092	-	46,166
Net Loss						(563,644)	(563,644)
Balance - December 31, 2024	<u>3,443,566</u>	<u>\$ 3,440</u>	<u>2,000,000</u>	<u>\$ 2,000</u>	<u>\$ 1,885,625</u>	<u>\$ (2,138,338)</u>	<u>\$ (247,273)</u>

See accompanying notes to the financial statements.

ANDREW ARROYO REAL ESTATE, INC.
Statements of Cash Flows
Years Ended December 31, 2024 and 2023 (revised)

	2024	2023 As restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (563,644)	\$ (495,207)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	20,499	28,709
Gain on sale of property and equipment	(7,733)	(1,049)
Stock based compensation	46,166	-
Noncash operating lease costs	37,957	32,468
Gain on extinguishment of lease	(1,065)	-
Accrued interest on loans	11,182	7,518
Changes in assets and liabilities:		
Accounts receivable	21,155	6,721
Other current assets	3,735	14,223
Insurance receivable	(385,000)	0
Accounts payable	113,875	34,350
Accrued liabilities	(8,583)	(430)
Accrued legal liability	385,000	0
Other current liabilities	(58,273)	222,554
Change in operating lease liabilities	(37,339)	(30,525)
Net cash used in operating activities	(422,068)	(180,669)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on sale of equipment	10,198	1,049
Net cash flows provided by investing activities:	10,198	1,049
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on auto loan	(9,531)	(6,893)
Repayments on SBA loan	(3,315)	-
Proceeds on SBA loan	-	7,219
Proceeds on related party note payable	79,000	40,000
Net repayment on lines of credit	(4,394)	(1,608)
Proceeds from sales of common stock	823,096	183,803
Net cash provided by financing activities:	884,856	222,521
Net increase in cash and cash equivalents	472,986	42,901
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF YEAR	514,801	471,900
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	<u>\$ 987,787</u>	<u>\$ 514,801</u>
Supplemental disclosure of cash flow Information		
Cash paid during the year for:		
Income taxes	\$ 2,936	\$ 5,486
Interest	\$ 29,711	\$ 37,503
Supplemental disclosure for non-cash investing and financing activities:		
Operating leases placed in service	\$ -	\$ 169,800

See accompanying notes to the financial statements.

ANDREW ARROYO REAL ESTATE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE 1 - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Andrew Arroyo Real Estate, Inc. (the "Company") was incorporated on June 18, 2020, under the laws of the State of Delaware. A predecessor company that was merged with and into the Company effective July 31, 2021 was originally incorporated under the laws of the State of California on January 20, 2004, as Andrew Michael Arroyo Inc. and updated its name to Andrew Arroyo Real Estate Inc. on April 30, 2007. The trademark and d/b/a that is known in the marketplace is "AARE". The Company was formed to conduct real estate brokerage and investment services. These services include assisting clients buy, sell, manage, and invest in residential and commercial properties as well as business opportunities. The Company's year-end is December 31.

Capital Stock

Authorized capital is 25,000,000 shares of common stock, par \$0.001, and 5,000,000 shares of preferred stock, par \$0.001, all authorized by amendment dated July 29 2021. Common stock issued and outstanding was 3,443,566 shares as of December 31, 2024 and 3,203,220 as of December 31, 2023. Series A Convertible Preferred Stock is 2,000,000 shares as of December 31, 2024 and 2023. The Series A Convertible Preferred Stock has dividend rights equal to common on an as converted basis , 1-for-1 conversion to common after 12 months, three votes per share, liquidation preference of \$0.001 per share, and customary protective provisions. The series is classified in permanent equity under ASC 480-10-S99-3A. The Series A Convertible Preferred is convertible into up to 2,000,000 shares of common stock. These potential shares were excluded from diluted earnings per share for 2024 and 2023 because their effect would have been anti-dilutive.

From January 1, 2024 to December 31, 2024, the Company issued 164,622 new shares through its Regulation A financing at \$5.00 per share and issued 75,724 new vested shares through its equity incentive plan at an average grant price of \$0.6097. From January 1, 2023 to December 31, 2023, the Company issued 22,760 new shares through its Regulation A financing at \$5.00 per share and issued 0 new vested shares through its equity incentive plan.

ANDREW ARROYO REAL ESTATE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE 1 - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (Continued)

On July 31, 2021, the Company "Andrew Arroyo Real Estate, Inc." a Delaware "C" Corporation merged with "Andrew Arroyo Real Estate, Inc." a California "S" Corporation. After the merger the California "S" Corporation was merged with and into the Company, which effectively ceased all operations of the California corporation, and those operations were assumed by the Company (the surviving Delaware "C" Corporation). Effective with the merger, the Certificate of Incorporation of the Company stayed as the Company's Certificate of Incorporation, and the 1,000 shares owed by the sole shareholder of the California corporation, Mr. Andrew Arroyo, the Company's sole director and one of its executive officers, were exchanged for 2,000,000 shares of the Company's Series A Convertible Preferred Stock.

Management's Plans

Management has evaluated whether there are conditions or events that raise substantial doubt about the Company's ability to continue as a going concern for the one-year period from the date of these financial statements (the assessment period) in accordance with ASC 205-40.

As of June 30, 2025, the Company had \$883,376 in unrestricted cash and cash equivalents and \$446,234 in notes payable, of which approximately \$300,000 is due to a related party. Based on the projected income and cash flow generated by the Company's current residential and commercial brokerage, property management and lending services business, plus the cash the Company has on hand and its plans to offer securities, the Company anticipates having enough liquidity to fund its existing current residential and commercial brokerage, property management and lending services business for the next 12 months. The Company reported net losses in the amount of \$563,644 and \$495,207 during the years ended December 31, 2024, and 2023 and had a net stockholders' deficit as of December 31, 2024 in the amount of \$247,273. The Company plans to use funds raised from offerings of their equity to continue to grow the Company nationwide and execute their business plan. It is the opinion of the management that they will be successful in raising funds through the sale of equity, the proceeds from its Regulation A offerings, and availability of their existing cash and lines of credit will satisfy their need for liquidity and cash requirements for the foreseeable future and into 2026 and beyond and put them in a position to grow their business in accordance with their business plan, outlined in three (3) milestones for investment division and three (3) milestones for the services division.

Management believes it is probable that these plans will be effectively implemented and will generate sufficient liquidity to satisfy obligations during the assessment period. Accordingly, management has concluded that no substantial doubt exists.

Basis of Presentation

The December 31, 2023 and December 31, 2024 audited financial statements include the accounts of the Company under the accrual basis of accounting. The financial statements, included herein, have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission. Pursuant to these rules and regulations, the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and have been consistently applied.

Management's Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates.

Income Taxes

The Company accounts for income taxes in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC 740), "Income Taxes," which requires that the Company recognize deferred tax liabilities and assets based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit (expense) results from the change in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all deferred tax assets will not be realized.

The Company has adopted the provisions of FASB ASC 740-10-05, "Accounting for Uncertainty in Income Taxes". The ASC clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The ASC prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The ASC provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

ANDREW ARROYO REAL ESTATE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE 1 - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a C Corp. under current tax law the Company is responsible for Federal taxes equal to 21% of the net income of the Company as well as various tax rates for the states they have operations in. For the year ended December 31, 2024, the Company had a net operating loss (NOL) of \$541,516 as well as a charitable contribution carryover the combination of which created a deferred tax asset which are reduced by the valuation allowance.

The Company operates in 25 states throughout the U.S. Each state has an income tax and/or a franchise/commerce tax on the gross receipts of businesses based on total revenues in each state. The provision for income taxes includes state income taxes currently payable and deferred income taxes. Deferred income taxes represent the effects of items reported for tax purposes in periods different from those used for financial statement purposes.

401(k) Plan

The Company sponsors a defined contribution 401(k) plan (the Plan) that covers all eligible employees who meet certain service and age requirements. The Plan allows employees to contribute a percentage of their eligible compensation on a pre-tax or Roth after-tax basis, subject to limits imposed by federal tax law. For eligible employees, the Company provides a contribution equal to 100% of the eligible employees' contribution up to the first 3% of their eligible pay in compliance with Safe Harbor. The Company also provides matching contributions equal to 100% of the first 4% of an employee's eligible compensation contributed to the Plan. In addition to matching contributions, the Company may make a discretionary profit-sharing contribution to the Plan, subject to approval by the Company's Board of Directors. For the years ended December 31, 2024 and December 31, 2023, the Company's total contributions to the Plan, including matching and discretionary contributions, was \$46,550 and \$57,326 respectively. All employee contributions and Company matching contributions vest immediately. Any discretionary profit-sharing contributions vest according to the following schedule: 25% after one year of service, 50% after two years, 75% after three years, 100% after four years, 100% after five years, and 100% after six years of service. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Charitable Contributions

The Company's board of directors has adopted a discretionary policy that authorizes donations of up to 20 percent of annual gross profit (as defined below) to qualified charitable organizations. "Gross profit" is calculated as total revenue less cost of sales. The policy does not create a binding legal obligation; donations are recorded as expense only when the board approves a specific contribution or when payment is made, in accordance with ASC 720-25-25-1. Charitable contributions are reported in "Selling, general and administrative expenses" in the accompanying statements of operations. For the years ending December 31, 2024 and 2023, the Company donated \$112,592 and \$119,206 respectively.

No unconditional commitments to future charitable donations existed at December 31, 2024 or December 31, 2023; therefore, no liability has been accrued.

Cash, Cash Equivalents and Restricted Cash

The Company considers all short-term securities purchased with maturity dates of three months or less to be cash. The Company from time to time during the years covered by these financial statements may have bank balances in excess of its insured limits. Management has deemed this as a normal business risk. Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. As of December 31, 2024 and 2023, the Company had approximately \$987,787 and \$514,801 respectively deposited in two financial institutions. Of this amount, \$250,000 was insured by the Federal Deposit Insurance Corporation.

Certain of the Company's cash positions are restricted property management trust funds on deposit with a bank as collateral for certain trust fund liabilities, which include security deposits and rents that belong to property owners. These related liabilities are short-term in nature as a result of our property management activities. These cash amounts are reported as other current assets and other current liabilities on the balance sheets based on when the cash will be contractually released to the owners or tenants of the properties. Total restricted cash was approximately \$442,350 and \$354,261 on December 31, 2024 and 2023, respectively deposited in one financial institution. Of this amount, \$250,000 was insured by the Federal Deposit Insurance Corporation. Restricted cash is presented separately on the balance sheet. Related trust fund liabilities are included in other current liabilities.

For the year ended December 31, 2024 and 2023, the cash positions are as follows:

	2024	2023
Cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 545,437	\$ 160,540
Restricted cash	442,350	354,261
Total cash, cash equivalents and restricted cash	<u>\$ 987,787</u>	<u>\$ 514,801</u>

Concentration and Credit Risk

The Company from time to time during the years covered by these financial statements may have bank balances in excess of its insured limits. Management has deemed this as a normal business risk. Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. As of December 31, 2024 and 2023, the Company had approximately \$987,787 and \$514,801 respectively deposited in two financial institutions. Of this amount, \$250,000 was insured by the Federal Deposit Insurance Corporation.

ANDREW ARROYO REAL ESTATE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE 1 - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (Continued)

Noncurrent Assets

	<u>2024</u>	<u>2023</u>
Noncurrent Assets:		
Uniform Resource Locator ("URL") Purchase	\$ 18,196	\$ 18,196
Accumulated Amortization	(10,312)	(6,672)
Noncurrent Assets	<u>\$ 7,884</u>	<u>\$ 11,524</u>

Amortization expense was \$3,639 for the year ended December 31, 2024 and \$3,639 for the year ending December 31, 2023.

Property and Equipment

Property and equipment are carried at cost. Expenditures for property and equipment are capitalized and depreciated over five to 31.5 years using the declining balance method. When assets are retired or sold, the related cost and accumulated depreciation are removed from the account and any gain or loss arising from such disposition is included as income or expense. Expenditures for repairs and maintenance are charged to expense as incurred. For the year ending December 31, 2024 and 2023, depreciation expense was \$16,860 and \$25,070, respectively. Fixed assets consisted of:

	<u>2024</u>	<u>2023</u>
Property and Equipment:		
Automobiles and Transportation	\$ 47,014	\$ 47,014
Leasehold Improvements	25,035	25,035
Advertising Equipment	179,477	192,746
Furniture and Fixtures	31,886	31,886
	<u>283,412</u>	<u>296,681</u>
Accumulated Depreciation	(232,901)	(226,846)
Property and Equipment, net	<u>\$ 50,511</u>	<u>\$ 69,835</u>

Right of Use Asset

For the year ending December 31, 2024 and 2023, the right of use asset are as follows:

	<u>2024</u>	<u>2023</u>
Right-of-Use Asset	<u>122,046</u>	<u>182,844</u>

ANDREW ARROYO REAL ESTATE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE 1 - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable and Allowance for Credit Losses

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for credit losses that reflects management's estimate of lifetime expected credit losses on outstanding receivables. The allowance is measured using relevant available information about historical credit loss experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. In developing its estimate, the Company considers factors such as customer type, aging of balances, payment history, current and expected economic conditions, and, when applicable, specific reserves for customers with known financial difficulties. Receivables are written off when management determines they are uncollectible, and recoveries of amounts previously written off are recorded when received. Changes in the allowance are recorded in selling, general and administrative expenses in the consolidated statements of operations. The balance of the allowance for credit losses was \$0 and \$0 at December 31, 2024, and December 31, 2023, respectively.

Financial Instruments

The Company's financial instruments, as defined by FASB ASC subtopic 825-10, Financial Instrument ("ASC 825-10"), include cash, cash equivalents, accounts receivable, accounts payable and note payable. All instruments are accounted for on a historical cost basis, which, due to the short maturity of these financial instruments, approximates fair value at December 31, 2024 and 2023 respectively.

Revenue Recognition

The Company has generated significant revenues in California. The Company has not, to date, generated significant revenues outside California. The Company recognizes revenue in accordance with FASB Accounting Standards Codification ("ASC") 606, "Revenue from Contracts with Customers" which requires that five basic criteria must be met before revenue can be recognized: (1) identification of the contract with a customer, (2) identification of the performance obligation(s), (3) determination of the transaction price, (4) allocation of the transaction price to the performance obligation(s), and (5) recognition of revenue when, or as the Company satisfies a performance obligation. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related revenue is recorded.

Nature of Revenues and Performance Obligations

The Company acts as a broker and representative for principals in real estate transactions and derives its revenue primarily from real estate brokerage transactions. A broker's license is required for the representation of principals in real estate transactions and the Company holds such licenses in states nationwide.

The single performance obligation providing brokerage services to buyers and sellers, is satisfied at the closing of escrow and recording of the deed at which point the Company is entitled to its commission. The Company evaluated the principal-versus-agent guidance in ASC 606-10-55 and concluded it is the principal in these transactions; accordingly, revenues are reported gross of commissions and related agent payouts.

Variable Consideration

Commission rebates, referral splits, and promotional credits are forms of variable consideration. Management constrains estimates to the amount not expected to reverse and recognizes adjustments in the same period the underlying revenue is recorded.

Timing of Satisfaction of Performance Obligations

For property sale transactions, revenue is recognized at the closing date, when control of the property transfers to the buyer. This scenario meets the criteria for point-in-time recognition under ASC 606, as the Company's performance obligations are fulfilled at discrete points.

Contract Balances

The Company invoices and collects commissions at closing; therefore no contract assets or contract liabilities exist at any reporting date.

Incremental Costs

Commissions paid to sales agents are incurred and expensed at closing. Because the amortization period for any incremental costs would be less than one year, the Company has elected the practical expedient in ASC 340-40-25-4 not to capitalize these costs.

Disaggregation of Revenue

In accordance with ASC 606-10-50-5, The Company considered whether presenting revenue on a disaggregated basis was necessary for understanding the nature, amount, timing, and uncertainty of revenue and cash flows. Given that revenue is primarily generated from transaction-based commissions with similar economic characteristics, management has concluded that further disaggregation does not provide significant additional insight into the Company's revenue patterns, and has therefore presented revenue as a single line item on the accompanying statements of operations. The Company derives approximately 96% of its revenue from commissions earned on real estate transactions. The remaining 4% of revenue comes from ancillary real estate-related services, including property management fees and long-term rental income, none of which are individually material. These revenues are recognized as performance obligations are satisfied.

Recently Issued Accounting Pronouncements

In November 2024, the FASB issued ASU No. 2024-03, Income Statement - Reporting Comprehensive Income - Expense Disaggregation (Subtopic 220-40): Disaggregation of Income Statement Expenses. The amendments in ASU 2024-03 require a public business entity to disclose specific information about certain costs and expenses in the notes to its financial statements for interim and annual reporting periods. The objective of the disclosure requirements is to provide disaggregated information about a public business entity's expenses to help investors (a) better understand the entity's performance, (b) better assess the entity's prospects for future cash flows, and (c) compare an entity's performance over time and with that of other entities. ASU 2024-03 is effective for fiscal years beginning after December 15, 2026, and for interim periods within fiscal years beginning after December 15, 2027, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its financial statements.

ANDREW ARROYO REAL ESTATE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE 1 - THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES (Continued)

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. This ASU enhances the transparency and decision usefulness of income tax disclosures. It is designed to provide more detailed information about an entity's income tax expenses, liabilities, and deferred tax items, potentially affecting how companies report and disclose their income tax-related information. The ASU is effective for public business entities for annual periods beginning after December 15, 2024, including interim periods within those fiscal years. The Company is currently evaluating how this ASU will impact its financial statements and disclosures.

Recently Adopted Accounting Pronouncements

In June 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. This ASU has updated disclosure requirements for significant segment expense categories that are regularly provided to the Chief Operating Decision Maker (CODM). Previously, companies were only required to report revenues, assets, and certain profit or loss metrics for each segment. The update emphasizes that expenses reported should align with those that are used by the CODM when assessing segment performance. This aligns with the management approach to segment reporting, which bases financial disclosures on how the company's management organizes and evaluates the business. This ASU aims to enhance the transparency and comparability of segment information by offering more granular insights into how key expense categories impact segment performance. This ASU also clarifies existing guidance regarding how public entities should report segment profit or loss. The Company adopted this standard in 2024. See Note 9.

Management does not believe that any other recently issued, but not yet effective, accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

NOTE 2 - RESTATEMENT OF PRIOR YEAR REPORTED AMOUNTS

In the Company's 1-K filing as of and for the year ended December 31, 2023, management included Series A preferred shares in its fully diluted loss per share. The preferred shares should have been excluded from the calculation, as the Company had reported a net loss for the year ended December 31, 2023, and inclusion of the preferred shares are anti-dilutive. The earnings per share disclosure has been corrected for the years ended December 31, 2024 and 2023 as reported in this 1-K.

Year Ended December 31,

	<u>As Previously Reported 2023</u>	<u>Restatement Adjustment</u>	<u>Restated 2023</u>
STATEMENT OF OPERATIONS:			
Loss per share (basic)	(0.10)	-	(0.16)
Loss per share (fully diluted)	(0.16)	(0.06)	(0.16)

In the Company's 1-K filing as of and for the year ended December 31, 2023, restricted cash was presented as other current assets on the balance sheet and restricted cash was omitted from the statement of cash flows. Management has corrected this on the accompanying balance sheet for 2024 and 2023 by presenting restricted cash on the balance sheet. Management has also presented a restated 2023 statement of cash flows that reconciles cash flows to cash and cash equivalents and restricted cash.

Year Ended December 31,

	<u>As Previously Reported 2023</u>	<u>Restatement Adjustment</u>	<u>Restated 2023</u>
BALANCE SHEETS:			
ASSETS			
Current assets			
Cash and cash equivalents	\$ 160,540	\$ -	\$ 160,540
Restricted cash	-	354,261	354,261
Accounts receivable, net	61,783	-	61,783
Other current assets	366,802	(354,261)	12,541
Total current assets	589,125	-	589,125
Property and equipment, net	252,679	(182,844)	69,835
Right of use asset	-	182,844	182,844
Intangible assets, net	11,524	-	11,524
TOTAL ASSETS	\$ 853,328	\$ -	\$ 853,328

ANDREW ARROYO REAL ESTATE, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 2 - RESTATEMENT OF PRIOR YEAR REPORTED AMOUNTS (Continued)

Year Ended December 31,

	As Previously Reported 2023	Restatement Adjustment	Restated 2023
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (495,207)	\$ -	\$ (495,207)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	28,709	-	28,709
Gain on sale of property and equipment	(1,049)	-	(1,049)
Amortization of operating right-of-use asset	-	32,468	32,468
Accrued interest	-	7,518	7,518
Changes in assets and liabilities:			
Accounts receivable	6,721	-	6,721
Other current assets	(87,859)	102,082	14,223
Accounts payable	34,350	-	34,350
Accrued liabilities	(430)	-	(430)
Other current liabilities	230,072	(7,518)	222,554
Change in operating lease liabilities	1,943	(32,468)	(30,525)
Net cash used in operating activities	(282,751)	(102,082)	(180,669)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Gain on sale of equipment	1,049	-	1,049
Net cash flows provided by investing activities:	1,049	-	1,049
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment on auto loan	(6,893)	-	(6,893)
Proceeds on SBA Loan	7,219	-	7,219
Proceeds on related party note payable	40,000	-	40,000
Net repayment on lines of credit	(1,608)	-	(1,608)
Proceeds from sales of common stock	183,803	-	183,803
Net cash provided by financing activities:	222,521	-	222,521
Net increase (decrease) in cash and cash equivalents	(59,181)	102,082	42,901
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF YEAR	219,721	252,179	471,900
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF YEAR	<u>\$ 160,540</u>	<u>\$ 354,261</u>	<u>\$ 514,801</u>

NOTE 3 – LOSS PER SHARE, BASIC AND DILUTED

Basic earnings / loss per share has been computed by dividing net earnings /loss available to common shareholders by the weighted average number of common shares outstanding for the period. For the period ending December 31, 2024 the basic and diluted loss per share available to common shareholders has been computed by dividing the net loss of \$563,644 by the weighted average of 3,297,002 issued and outstanding common shares. For the period ending December 31, 2023 the basic and diluted loss per share available to common shareholders has been computed by dividing the net loss of \$495,207 by the weighted average of 3,189,948 issued and outstanding common shares.

The following potential common shares were excluded from the computation of diluted loss per share because their effect would have been antidilutive: For the period ending December 31, 2024, 233,899 shares of common stock underlying Restricted Stock Awards (RSAs) and Restricted Stock Units (RSUs) subject to vesting. For the period ending December 31, 2023, 241,545 shares of common stock underlying Restricted Stock Awards (RSAs) and Restricted Stock Units (RSUs) subject to vesting.

ANDREW ARROYO REAL ESTATE, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 4 – RESTRICTED STOCK AWARDS

The Company follows Accounting Standards Codification subtopic 718-10, *Compensation* ("ASC 718-10"), which requires that all share-based payments to both employees and non-employees be recognized in the statement of operations based on their fair values.

On January 1, 2023, the Company's board approved and adopted the "2023 AARE Equity Incentive Plan". This allows the Company to grant restricted stock units, restricted stock, qualified and non-qualified stock options to employees, directors, consultants and independent contractors.

Restricted stock award transactions during the year ended December 31, 2024 were as follows:

	Shares	Weighted average grant date fair value per share
Unvested at beginning of period	241,545	\$ 0.60
Granted	76,204	0.51
Vested	(75,724)	0.60
Forfeited or cancelled RSUs and RSAs	(8,126)	0.59
Unvested at end of period	233,899	\$ 0.57

At December 31, 2024 we had approximately \$134,846 unrecognized stock-based compensation expenses related to restricted stock awards. The weighted average will be recognized over 5 years. Fair market value of stock-based compensation was determined by an independent third party 409a valuation. The stock-based compensation expense for the years ended December 31, 2023 and December 31, 2024 was \$0 and \$46,166 respectively.

NOTE 5 - RELATED PARTY TRANSACTIONS

Through December 31, 2024, the Company spent approximately \$300,000 on the costs related to our Regulation A offerings, which was loaned to the Company by the CEO, Andrew Michael Arroyo. The terms of the promissory note are interest payable on the unpaid principal at the rate of 4% per annum. Principal and interest will be paid beginning February 1, 2022 until the end of the repayment period which is June 29, 2027. For the period ending December 31, 2023, \$7,518 of interest was accumulated. During this period, \$0 of principal and \$0 of interest was paid during this period. For the period ending December 31, 2024, \$11,182 of interest was accumulated. During this period, \$0 principal and \$0 interest was paid during this period. The Company has the right to pay off the note earlier than the end of the repayment period without penalty. This related party note is classified within Level II of the fair value hierarchy.

Future maturity of the related party note payable at December 31, 2024 is as follows:

2025	\$ -
2026	-
2027	305,924
2028	-
2029	-
Thereafter	-
Total	\$ 305,924

ANDREW ARROYO REAL ESTATE, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 – OTHER CURRENT LIABILITIES**Other Current Liabilities**

The other current liabilities for the years ended December 31, 2024 and December 31, 2023 were as follows:

	2024	2023
Other current liabilities:		
Accrued expenses	\$ 33,532	\$ 183,190
Income tax payable	2,936	-
Trust account liabilities	442,350	354,261
Total other current liabilities, net of current portion	<u>\$ 478,818</u>	<u>\$ 537,451</u>

NOTE 7 - DEBT**Lines of Credit**

The Company has an unsecured \$75,000 business Line of Credit (LOC) through Wells Fargo Bank that renews annually. The LOC carries an interest rate of 14.50% and 13.25% as of December 31, 2024 and 2023, respectively. As of December 31, 2024 and 2023, \$69,382 and \$73,776 was outstanding under this LOC.

EIDL Loan

The Company has an Economic Injury Disaster Loan (EIDL) in the amount of \$149,900 collateralized by substantially all of the Company's assets. This loan carries a 3.75% interest rate payable over 30 years with a start date of April 29, 2021 and a maturity date of May 28, 2050. As of December 31, 2023 and 2024, \$142,912 and \$146,227 was outstanding under this EIDL, respectively.

Vehicle Loan

On December 26, 2020, the Company has a vehicle loan for a Lexus RX in the amount of \$46,014 that is collateralized by the vehicle. The loan is for a period of 5 years at 1.99% interest rate with a maturity date of December 26, 2025. As of December 31, 2024 and 2023, \$10,628 and \$20,158 was outstanding under this Vehicle loan, respectively.

The debt schedule for the years ended December 31, 2024 and December 31, 2023 were as follows:

	2024	2023
Long Term Debt:		
Note Payable SBA-EIDL loan	\$ 142,912	\$ 146,227
Note Payable - Lexus	10,627	20,158
Note Payable - Andrew Arroyo	305,924	226,924
Total Long Term Debt	459,463	393,309
Current Portion Long Term Debt	(13,229)	(12,909)
Total Long Term Debt, net of current portion	<u>\$ 446,234</u>	<u>\$ 380,400</u>

Future maturities of the debts payable at December 31, 2024 are as follows:

2025	\$ 13,253
2026	4,475
2027	309,678
2028	3,898
2029	4,046
Thereafter	124,113
Total	<u>\$ 459,463</u>

NOTE 8 – LEASE LIABILITIES

The following table discloses the lease cost, weighted average, discount rate and weighted average remaining lease terms for operating leases as of December 31, 2023 and December 31, 2024:

	2024	2023
Lease cost:	\$ 48,970	\$ 61,626
Weighted average remaining lease term:	3.33 years	4.33 years
Weighted average discount rate:	<u>14.5%</u>	<u>14.5%</u>

The average weighted discount rate applied is based on the Company's current line of credit interest rate.

Operating lease expense was \$48,970 and \$61,626 for the years ended December 31, 2024 and 2023, respectively.

ANDREW ARROYO REAL ESTATE, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 – LEASE LIABILITIES (Continued)

In April 2022, the Company entered into a 24-month lease agreement with expiration date in April 2024 for its corporate office in California. The agreement requires initial base rent payments of approximately \$1,881 per month increasing to approximately \$1,937 per month. This lease has two extension options for two years each which can extend the lease through April 2028. The Company has exercised one extension and has one remaining exercise option.

Total future operating lease liability commitments for the above non-cancellable leases as of December 31, 2024 and 2023, are as follows:

For the year ended December 31:

2025	\$	56,432
2026		58,329
2027		28,755
2028		6,543
Total lease payments		150,059
Less: imputed interest		(20,972)
Total		129,087
Less: current portion		(44,139)
Long-term operating lease liabilities at December 31	\$	84,948

NOTE 9 – SEGMENT REPORTING

The Company operates and manages its business as one reportable operating segment. The Company's CODM, the Chief Executive Officer, reviews internal financial information presented and decides how to allocate resources based on net income (loss). Net income (loss) is used for evaluating financial performance. Significant segment expenses include salaries and payroll, legal fees, stock based compensation, audit costs, contract services, rent, and other administrative expenses. The measurement of segment assets is reported on the consolidated balance sheets as total assets. The following table presents the significant segment expenses and other segment items regularly reviewed by our CODM.

	Year Ended December 31,	
	2024	2023
Revenue	\$ 7,127,922	\$ 7,609,767
Cost of Sales	6,139,251	6,629,745
Gross Profit	988,671	980,022
Operating expenses:		
General and administrative	1,530,188	1,630,392
Total operating expenses	1,530,188	1,630,392
Operating loss	(541,516)	(650,370)
Other income (expense)		
Total other income, net	(19,191)	160,649
Net loss before income tax	(560,707)	(489,721)
Income tax expense	(2,936)	(5,486)
Net loss	\$ (563,644)	\$ (495,207)

NOTE 10 - INCOME TAXES

Income tax expense consisted primarily of state franchise taxes in jurisdictions where the Company files. The Company recorded no federal current tax expense for the year ended December 31, 2024 due to a full valuation allowance against its net deferred tax assets.

Provision and Rate Reconciliation

For the year ended December 31, 2024, the Company incurred a pretax loss of (\$560,708). The difference between the U.S. federal statutory rate of (21.0)% and the Company's effective tax rate of approximately 0.0% primarily relates to the valuation allowance recorded against the federal and state deferred tax assets, partially offset by state/franchise taxes not reduced by net operating loss carryforwards.

A dollar-based reconciliation is presented below:

U.S. federal statutory tax benefit (21% of pretax loss)	\$ (117,749)
State and local income franchise taxes	2,936
Change in valuation allowance	114,813
Total income tax expense	\$ 2,936

Deferred Tax Assets and Valuation Allowance

Significant components of the Company's gross deferred tax assets ("DTA") consisted of the following as of December 31, 2024:

Federal net operating loss carryforwards	\$ 1,610,000
State net operating loss carryforwards	1,270,000
Charitable contribution carryforwards	370,000
Less: Valuation allowance	(3,250,000)
Net deferred tax assets	\$ -

Net Operating Losses and Carryforwards

As of December 31, 2024, the Company had U.S. federal net operating loss ("NOL") carryforwards of approximately \$1,610,000. Federal NOLs generated in tax years beginning after

2017 have an indefinite carryforward period and are subject to an annual limitation equal to 80% of taxable income in the year of utilization. The Company also had California NOL carryforwards of approximately \$1,270,000 that generally expire twenty years after origination. The Company had charitable contribution carryforwards of approximately \$370,000, which generally expire after five years for federal and California purposes.

The future realization of DTA is dependent on the Company's ability to generate sufficient taxable income within the carryforward periods. Based on negative evidence, including cumulative losses, the Company has recorded a full valuation allowance against its net DTA. The Company will continue to evaluate the need for a valuation allowance in future periods, and will reduce the allowance when sufficient positive evidence indicates that it is more likely than not that some or all of the DTA will be realized.

Uncertain Tax Positions and Other Matters

The Company had no unrecognized tax benefits as of December 31, 2024, and does not expect material changes within the next twelve months. The Company recognizes interest and penalties related to income taxes in income tax expense. Tax years 2021 through 2024 remain subject to examination by the U.S. federal and applicable state taxing authorities; statutes of limitations for certain states may vary.

Section 382/383 Limitations

Utilization of NOLs and other carryforwards may be limited in the event of an ownership change under Sections 382 and 383 of the Internal Revenue Code and similar state provisions.

The Company will adopt ASU 2023-09 for its fiscal year beginning January 1, 2025 and is evaluating the impact.

ANDREW ARROYO REAL ESTATE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Legal proceedings and loss contingencies

The real estate industry is subject to frequent claims and litigation. Buyers and sellers sometimes bring claims against one another and may seek to involve real estate agents and brokers. The Company evaluates pending matters under ASC 450, Contingencies, considering the nature of the allegations, status of the proceedings, advice of outside counsel, and the availability of insurance. A loss is accrued when it is probable that a liability has been incurred and the amount can be reasonably estimated. If a loss is reasonably possible but not probable, or if the amount of loss cannot be reasonably estimated, the Company provides disclosure but does not record an accrual. Potential insurance recoveries are recognized as receivables only when probable of recovery and are not netted against recorded loss contingencies.

Current matters

Matter 1 – Bonsall, California (arbitration). A buyer seeks rescission and damages alleging nondisclosure of water intrusion and potential mold by the seller, the HOA/property manager, and others. One of the Company's associates has been named. The Company maintains an errors and omissions ("E&O") policy with limits of \$1,000,000 per occurrence, in force since June 9, 2009. Based on the current stage of the settlement discussions and advice of counsel, \$18,000 will be accrued as a legal liability in our 2025 financial statements. The Company has not recorded an insurance receivable related to this matter because recovery is not yet deemed probable.

Matter 2 – Utah (litigation; non-E&O). A seller filed a complaint related to a for-sale-by-owner transaction involving a Company associate and a second trust deed of \$150,000, naming the associate and the Company and seeking reimbursement and other relief. This matter is not covered by the Company's E&O policy. The Company is engaged in settlement discussions. As of the reporting date, no loss has been accrued because a loss is not considered probable and the amount of any potential loss is not reasonably estimable.

For the second current matter discussed above, the Company cannot reasonably estimate a range of possible loss (or additional loss) as of the reporting date due to the early stage of the proceedings, evolving facts, and uncertainties related to defenses, damages, and insurance coverage determinations. The Company will update its assessments as additional information becomes available.

Resolved matter

San Diego, California (arbitration) — settled and dismissed. In a prior period, a buyer sought rescission in connection with a home purchase. The Company's insurer settled the claim for \$385,000 and the case was dismissed. During the year ended December 31, 2024, the Company recognized a \$385,000 legal settlement liability and a corresponding insurance receivable of \$385,000, resulting in no net impact on earnings. The insurer paid the settlement directly when finalized in 2025; accordingly, there was no cash outflow by the Company related to the settlement.

Other matters and insurance

Other than the matters described above, the Company is not a party to any legal proceedings that management believes are reasonably likely to have a material adverse effect on the Company's financial statements. The Company maintains insurance customary for its industry, including professional, general liability, workers' compensation, employer's liability, property, and other coverages, subject to deductibles, retentions, limits, exclusions, and insurer determinations of coverage. The Company records reserves for retained liabilities and deductibles when probable and reasonably estimable. Management believes recorded reserves are appropriate based on currently available information.

NOTE 12 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events through September 22, 2025 the date on which the accompanying financial statements were available to be issued, and the following two subsequent events took place.

The Company has issued 128,398 new shares through its Regulation A offering and its 2023 Equity Incentive Plan. The Company received \$460,000 for the shares sold through its Regulation A offering.

Other than the two events described above, the Company concluded that, no material subsequent events have occurred since December 31, 2024, that require recognition or disclosure in the financial statements.

ITEM 8 EXHIBITS

Item No.	Description
<u>2.1⁽¹⁾</u>	<u>Amended and Restated Articles of Incorporation of Andrew Arroyo Real Estate Inc.</u>
<u>2.2⁽¹⁾</u>	<u>Amended and Restated Bylaws of Andrew Arroyo Real Estate Inc.</u>
<u>2.3⁽¹⁾</u>	<u>Certificate of Merger filed in State of Delaware effective July 31, 2021</u>
<u>2.5⁽¹⁾</u>	<u>Merger Agreement by and between Andrew Arroyo Real Estate, Inc., a California corporation and Andrew Arroyo Real Estate Inc., a Delaware corporation dated July 28, 2021</u>
<u>4.1⁽¹⁾</u>	<u>Form of Subscription Agreement for the Offering</u>
<u>10.1⁽¹⁾</u>	<u>Escrow Agreement for the Offering</u>

(1) Incorporated by reference from Issuer's Offering Statement on Form 1-A filed with the Commission on September 15, 2021.

SIGNATURES

Pursuant to the requirements of Regulation A, the Issuer has duly caused this Form 1-K to be signed on its behalf by the undersigned thereunto duly authorized, in the City of San Diego, State of California, on September 22, 2025.

Andrew Arroyo Real Estate Inc.

Dated: September 22, 2025

/s/ Andrew Michael Arroyo
By: Andrew Michael Arroyo
Its: President and Chief Executive Officer (Principal Executive Officer)

Pursuant to the requirements of Regulation A, this report has been signed by the following persons in the capacities and on the dates indicated.

Dated: September 22, 2025

/s/ Andrew Michael Arroyo
By: Andrew Michael Arroyo, President, Chief Executive Officer (Principal Executive Officer), and Director

Dated: September 22, 2025

/s/ Clark Anctil
By: Clark Anctil
Its: Treasurer (Principal Financial Officer) and Financial Director