

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2019  
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-37997

**SACHEM CAPITAL CORP.**

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation or organization)

81-3467779

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

698 Main Street, Branford, CT 06405

(Address of principal executive offices)

(203) 433-4736

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Ticker symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Shares, par value \$.001 per share	SACH	NYSE American LLC
7.125% Notes due 2024	SCCB	NYSE American LLC
6.875% Notes due 2024	SACC	NYSE American LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of November 13, 2019, the Issuer had 22,117,301 common shares, \$0.001 par value per share, issued and outstanding.

**SACHEM CAPITAL CORP.**

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q includes forward-looking statements. All statements other than statements of historical facts contained in this report, including statements regarding our future results of operations and financial position, strategy and plans, and our expectations for future operations, are forward-looking statements. The words “anticipate,” “estimate,” “expect,” “project,” “plan,” “seek,” “intend,” “believe,” “may,” “might,” “will,” “should,” “could,” “likely,” “continue,” “design,” and the negative of such terms and other words and terms of similar expressions are intended to identify forward-looking statements.

We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, strategy, short-term and long-term business operations and objectives and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. In addition, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. We disclaim any duty to update any of these forward-looking statements after the date of this report to confirm these statements in relationship to actual results or revised expectations.

All forward-looking statements attributable to us are expressly qualified in their entirety by these cautionary statements as well as others made in this report. You should evaluate all forward-looking statements made by us in the context of these risks and uncertainties.

Unless the context otherwise requires, all references in this quarterly report on Form 10-Q to “Sachem Capital,” “we,” “us” and “our” refer to Sachem Capital Corp., a New York corporation.

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**SACHEM CAPITAL CORP.  
BALANCE SHEETS**

**PART I. FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS**

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Assets</b>		
Assets:		
Cash	\$ 11,004,943	\$ 99,310
Cash - restricted	-	59,549
Escrow deposits	-	12,817
Mortgages receivable	89,020,538	78,011,653
Mortgages receivable, affiliate	-	879,457
Interest and fees receivable	1,431,414	1,397,038
Other receivables	222,237	155,000
Due from borrowers	843,409	695,218
Prepaid expenses	37,171	14,866
Property and equipment, net	1,320,424	1,180,107
Deposits on property and equipment	49,881	12,000
Real estate owned	5,310,523	2,943,438
Deferred financing costs	38,351	553,597
	<u>\$ 109,278,891</u>	<u>\$ 86,014,050</u>
<b>Liabilities and Shareholders' Equity</b>		
Liabilities:		
Unsecured unsubordinated fixed rate notes (net of deferred financing costs of \$1,242,192)	\$ 22,420,808	\$ -
Line of credit	-	27,219,123
Mortgage payable	788,148	290,984
Accounts payable and accrued expenses	131,901	316,413
Security deposits held	7,800	7,800
Funds held in escrow	25,000	-
Advances from borrowers	498,504	317,324
Due to shareholder	-	1,200,000
Deferred revenue	1,067,667	1,058,406
Notes payable	68,634	-
Capital leases payable	11,573	-
Dividend payable	-	2,624,566
Accrued interest	3,323	176,619
Total liabilities	<u>25,023,358</u>	<u>33,211,235</u>
Commitments and Contingencies		
Shareholders' equity:		
Preferred shares - \$.001 par value; 5,000,000 shares authorized; no shares issued	-	-
Common stock - \$.001 par value; 50,000,000 shares authorized; 22,088,325 and 15,438,621 issued and outstanding	22,088	15,439
Paid-in capital	83,787,674	53,192,859
Retained earnings (accumulated deficit)	445,771	(405,483)
Total shareholders' equity	<u>84,255,533</u>	<u>52,802,815</u>
Total liabilities and shareholders' equity	<u>\$ 109,278,891</u>	<u>\$ 86,014,050</u>

The accompanying notes are an integral part of these financial statements.

**SACHEM CAPITAL CORP.**  
**STATEMENTS OF OPERATIONS**  
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>Revenue:</b>				
Interest income from loans	\$ 2,442,750	\$ 2,272,100	\$ 7,509,155	\$ 6,610,273
Origination fees, net	497,237	383,322	1,202,777	1,071,921
Late and other fees	18,149	59,949	205,182	144,031
Processing fees	44,870	30,680	121,470	101,480
Rental income, net	9,446	10,136	82,350	87,865
Other income	353,671	175,271	650,202	674,830
Net gain on sale of real estate	12,927	119,666	20,076	119,666
<b>Total revenue</b>	<b>3,379,050</b>	<b>3,051,124</b>	<b>9,791,212</b>	<b>8,810,066</b>
<b>Operating costs and expenses:</b>				
Interest and amortization of deferred financing costs	537,878	493,992	1,611,332	1,098,912
Stock based compensation	4,107	29,250	12,327	29,250
Professional fees	105,053	54,330	259,275	212,789
Compensation, fees and taxes	476,404	344,266	1,325,822	886,024
Exchange fees	11,343	10,000	32,850	26,667
Other expenses and taxes	39,355	7,669	70,683	67,668
Expense in connection with termination of LOC	-	-	779,641	-
Excise tax	-	-	-	19,000
Depreciation	18,618	6,834	44,286	20,302
General and administrative expenses	131,206	142,119	400,561	314,839
<b>Total operating costs and expenses</b>	<b>1,323,964</b>	<b>1,088,460</b>	<b>4,536,777</b>	<b>2,675,451</b>
<b>Net income</b>	<b>\$ 2,055,086</b>	<b>\$ 1,962,664</b>	<b>\$ 5,254,435</b>	<b>\$ 6,134,615</b>
<b>Basic and diluted net income per common share outstanding:</b>				
Basic	\$ 0.10	\$ 0.13	\$ 0.30	\$ 0.40
Diluted	\$ 0.10	\$ 0.13	\$ 0.30	\$ 0.40
<b>Weighted average number of common shares outstanding:</b>				
Basic	21,336,870	15,433,000	17,622,480	15,421,555
Diluted	21,336,870	15,433,000	17,662,480	15,421,555

The accompanying notes are an integral part of these financial statements.

**SACHEM CAPITAL CORP.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(unaudited)**

**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019**

	Common Stock		Additional Paid in Capital	(Accumulated Deficit) Retained Earnings	Totals
	Shares	Amount			
Balance, July 1, 2019	18,905,586	\$ 18,906	\$ 68,658,030	\$ 739,137	\$ 69,416,073
Sales of stock through ATM	866,332	866	4,375,320		4,376,186
Sale of common stock	2,300,000	2,300	10,668,202		10,670,502
Exercise of warrants	16,407	16	82,019		82,035
Stock based compensation		-	4,103		4,103
Dividends paid				(2,348,452)	(2,348,452)
Net income				2,055,086	2,055,086
Balance, September 30, 2019	<u>22,088,325</u>	<u>\$ 22,088</u>	<u>\$ 83,787,674</u>	<u>\$ 445,771</u>	<u>\$ 84,255,533</u>

**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018**

	Common Stock		Additional Paid in Capital	(Accumulated Deficit) Retained Earnings	Totals
	Shares	Amount			
Balance, July 1, 2018	15,415,737	\$ 15,416	\$ 53,315,772	\$ 2,180,618	\$ 55,511,806
Stock based compensation		21	29,229		29,250
Dividends paid				(1,708,939)	(1,708,939)
Net income				1,962,664	1,962,664
Balance, September 30, 2018	<u>15,415,737</u>	<u>\$ 15,437</u>	<u>\$ 53,345,001</u>	<u>\$ 2,434,343</u>	<u>\$ 55,794,781</u>

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019**

	Common Stock		Additional Paid in Capital	(Accumulated Deficit) Retained Earnings	Totals
	Shares	Amount			
Balance, January 1, 2019	15,438,621	\$ 15,439	\$ 53,192,859	\$ (405,483)	\$ 52,802,815
Sales of stock through ATM	4,333,297	4,333	19,832,267		19,836,600
Sale of common stock	2,300,000	2,300	10,668,202		10,670,502
Exercise of warrants	16,407	16	82,019		82,035
Stock based compensation			12,327		12,327
Dividends paid				(4,403,181)	(4,403,181)
Net income				5,254,435	5,254,435
Balance, September 30, 2019	<u>22,088,325</u>	<u>\$ 22,088</u>	<u>\$ 83,787,674</u>	<u>\$ 445,771</u>	<u>\$ 84,255,533</u>

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018**

	Common Stock		Additional Paid in Capital	(Accumulated Deficit) Retained Earnings	Totals
	Shares	Amount			
Balance January 1, 2018	15,415,737	\$ 15,416	\$ 53,315,772	\$ 1,235,093	\$ 54,566,281
Stock based compensation		21	29,229		29,250
Dividends paid				(4,935,365)	(4,935,365)
Net income				6,134,615	6,134,615
Balance, September 30, 2018	<u>15,415,737</u>	<u>\$ 15,437</u>	<u>\$ 53,345,001</u>	<u>\$ 2,434,343</u>	<u>\$ 55,794,781</u>

The accompanying notes are an integral part of these financial statements.

**SACHEM CAPITAL CORP.**  
**STATEMENTS OF CASH FLOW**  
(unaudited)

	Nine Months Ended September 30,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 5,254,435	\$ 6,134,615
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred financing costs	159,872	90,165
Depreciation expense	44,286	20,302
Stock based compensation	12,327	29,250
Gain on sale of real estate	(20,076)	(119,666)
Abandonment of office furniture	12,000	-
Costs in connection with termination of line of credit	439,446	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Escrow deposits	12,813	111,189
Interest and fees receivable	(454,487)	(916,672)
Other receivables	(67,237)	(150,520)
Due from borrowers	2,122,939	(308,866)
Prepaid expenses	(22,305)	(23,093)
Deposits on property	(37,881)	-
(Decrease) increase in:		
Due to note purchaser	(176,619)	(723,478)
Accrued interest	3,323	117,128
Accrued expenses	(159,512)	(295,734)
Deferred revenue	9,261	44,265
Advances from borrowers	180,889	(243,387)
Total adjustments	2,059,039	(2,369,117)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>7,313,474</b>	<b>3,765,498</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of real estate owned	362,136	672,538
Acquisitions of and improvements to real estate owned	(443,217)	(104,799)
Purchase of property and equipment	(196,603)	(331,386)
Principal disbursements for mortgages receivable	(42,163,704)	(37,278,346)
Principal collections on mortgages receivable	27,917,331	20,958,280
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<b>(14,524,057)</b>	<b>(16,083,713)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes sold to shareholder	1,017,000	-
Repayment of notes sold to shareholder	(2,217,000)	-
Proceeds from line of credit	42,720,829	61,067,401
Repayment of line of credit	(69,939,952)	(43,648,867)
Dividends paid	(7,027,746)	(4,935,365)
Pre-offering costs incurred	-	(853)
Financing costs incurred	(6,836)	(566,886)
Proceeds from mortgage payable	795,000	-
Repayment of mortgage payable	(297,837)	(7,535)
Proceeds from notes payable, net	68,634	-
Proceeds from issuance of common stock	30,736,148	-
Cost associated with the issuance of common stock	(147,002)	-
Proceeds from issuance of bonds	23,663,000	-
Cost associated with the issuance of notes	(1,307,571)	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>18,056,667</b>	<b>11,907,895</b>
<b>NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH</b>	<b>10,846,084</b>	<b>(410,320)</b>
<b>CASH AND RESTRICTED CASH- BEGINNING OF YEAR</b>	<b>158,859</b>	<b>954,223</b>
<b>CASH AND RESTRICTED CASH - END OF PERIOD</b>	<b>\$ 11,004,943</b>	<b>\$ 543,903</b>

The accompanying notes are an integral part of these financial statements.

**SACHEM CAPITAL CORP.**  
**STATEMENTS OF CASH FLOW (Continued)**

	<b>September 30, 2019</b>	<b>September 30, 2018</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION</b>		
Taxes paid	\$ -	\$ 19,000
Interest paid	<u>\$ 472,329</u>	<u>\$ 1,008,747</u>

**SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES**

During the nine months ended September 30, 2018, the Company purchased a mortgage receivable from a third party at a discount in the amount of \$21,433.

Real estate acquired in connection with the foreclosure of certain mortgages, inclusive of interest and other fees receivable, during the nine months ended September 30, 2018 amounted to \$2,369,196.

The reversal of previously accrued capitalized costs during the nine months ended September 30, 2018, amounted to \$6,212.

Real estate acquired in connection with the foreclosure of certain mortgages, inclusive of interest and other fees receivable, during the nine months ended September 30, 2019 amounted to \$2,265,927.

During the nine months ended September 30, 2019, the Company purchased equipment for \$13,005 subject to a capital lease.

During the nine months ended September 30, 2019 Mortgages receivable, affiliate in the amount of \$879,457 were reduced to \$0 as the underlying loans were transferred to the Company and are included in Mortgages receivable.

The accompanying notes are an integral part of these financial statements.

**SACHEM CAPITAL CORP.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**1. The Company**

Sachem Capital Corp. (the "Company"), a New York corporation, specializes in originating, underwriting, funding, servicing and managing a portfolio of first mortgage loans. The Company offers short term (*i.e.*, one to three years), secured, non-banking loans (sometimes referred to as "hard money" loans) to real estate owners and investors to fund their acquisition, renovation, development, rehabilitation or improvement of properties located primarily in Connecticut. The properties securing the Company's loans are generally classified as residential or commercial real estate and, typically, are held for resale or investment. Each loan is secured by a first mortgage lien on real estate and may also be secured with additional collateral, such as other real estate owned by the borrower or its principals, a pledge of the ownership interests in the borrower by its principals and/or personal guarantees by the principals of the borrower. The Company does not lend to owner-occupants. The Company's primary underwriting criteria is a conservative loan-to-value ratio. In addition, the Company has made and may continue to make opportunistic real estate acquisitions.

**2. Significant Accounting Policies**

*Unaudited Financial Statements*

The accompanying unaudited financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all the information and footnotes required by GAAP for audited financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results of operations for the interim periods are not necessarily indicative of the operating results to be attained in the entire fiscal year.

*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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases these estimates on (a) various assumptions that take into account the Company's past experience, (b) the Company's projections regarding future operations and (c) general financial market and local and general economic conditions. Actual amounts could differ from those estimates.

*Concentrations of Credit Risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and mortgage loans. The Company maintains its cash with one major financial institution. Accounts at the financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000.

Credit risks associated with the Company's mortgage loan portfolio and related interest receivable are described in Note 3, below, entitled "Mortgage Loans Receivable."

*Impairment of long-lived assets*

The Company continually monitors events or changes in circumstances that could indicate that the carrying amounts of long-lived assets may not be recoverable. When such events or changes in circumstances occur, the Company assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the undiscounted cash flows is less than the carrying amount of these assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair market value of the assets.

**SACHEM CAPITAL CORP.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

*Income Taxes*

The Company believes it qualifies as a Real Estate Investment Trust (REIT) for federal income tax purposes and elected to be taxed as a REIT when it filed its 2017 federal income tax return. As a REIT, the Company is required to distribute at least 90% of its taxable income to its shareholders on an annual basis. The Company's qualification as a REIT depends on its ability to meet on a continuing basis, through actual investment and operating results, various complex requirements under the Internal Revenue Code of 1986, as amended, relating to, among other things, the sources of its income, the composition and values of its assets, its compliance with the distributions requirements applicable to REITs and the diversity of ownership of its outstanding common shares. So long as it qualifies as a REIT, the Company, generally, will not be subject to U.S. federal income tax on its taxable income distributed to its shareholders. However, if it fails to qualify as a REIT in any taxable year and does not qualify for certain statutory relief provisions, it will be subject to U.S. federal income tax at regular corporate rates and may also be subject to various penalties and may be precluded from re-electing REIT status for the four taxable years following the year during in which it lost its REIT qualification.

The Company has adopted the provisions of FASB ASC Topic 740-10 "Accounting for Uncertainty in Income Taxes," which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and disclosure required. An entity may only recognize or continue to recognize tax positions that meet a "more likely than not" threshold. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense. The Company has determined that there are no uncertain tax positions requiring accrual or disclosure in the accompanying financial statements as of September 30, 2019.

*Property and Equipment*

Land and building acquired in December 2016 to serve as the Company's office facilities is stated at cost. The building is being depreciated using the straight-line method over its estimated useful life of 40 years. Expenditures for repairs and maintenance are charged to expense as incurred. The Company relocated its entire operations to this property in March 2019.

*Revenue Recognition*

Interest income from the Company's mortgage loan portfolio is earned over the loan period and is calculated using the simple interest method on principal amounts outstanding. Generally, the Company's mortgage loans provide for interest to be paid monthly in arrears.

Origination fee revenue is recognized ratably over the loan period in accordance with ASC 310.

*Deferred Financing Costs*

Costs incurred in connection with the Company's revolving credit facilities, as discussed in Note 5 below, were amortized over the term of the applicable facility using the straight-line method. Unamortized deferred financing costs relating to the Webster credit facility were expensed when the liability was paid in full on June 25, 2019 and the facility was terminated.

*Fair Value of Financial Instruments*

The carrying amounts of the Bankwell mortgage, the mortgages receivable and the unsecured unsubordinated fixed rate notes payable approximates their respective fair values due to the relative short-term nature of such instruments. (See Notes 3, 5 and 6 below.)

*Earnings Per Share*

Basic and diluted earnings per share are calculated in accordance with ASC 260, "Earnings Per Share." Under ASC 260, basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. The computation of diluted earnings per share is similar to basic earnings per share, except that the denominator is increased to include the potential dilution from the exercise of stock options and warrants for common shares using the treasury stock method. The numerator in calculating both basic and diluted earnings per common share for each period is the reported net income.

**SACHEM CAPITAL CORP.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

*Recent Accounting Pronouncements*

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." The amendments in this ASU require that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The adoption of this guidance required the Company to reconcile changes in cash, cash equivalents, and restricted cash on the consolidated statement of cash flows. As a result, the Company no longer presents transfers between cash and cash equivalents and restricted cash in the statement of cash flows. The Company adopted this ASU in 2018.

In May 2019, the FASB issued ASU 2019-05, "Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief." This ASU allows entities to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost upon adoption of ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." The Company plans to adopt both ASU 2016-13 and ASU 2019-05 effective January 1, 2020. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

Management does not believe that any other recently issued, but not yet effected, accounting standards if currently adopted would have a material effect on the Company's financial statements.

**3. Mortgage Loans Receivable; Due from Borrowers**

The Company offers secured, non-banking loans to real estate owners and investors (also known as "hard money" loans) to fund their acquisition, renovation, development, rehabilitation or improvement of properties located primarily in Connecticut. The loans are secured by first mortgage liens on one or more properties owned by the borrower or related parties. In addition, each mortgage loan is personally guaranteed by the borrower or its principals, which guarantees may be collaterally secured as well. The mortgage loans are generally for a term of one to three years. The mortgage loans are initially recorded and carried thereafter, in our financial statements, at cost. Most of the mortgage loans provide for monthly payments of interest only (in arrears) during the term of the loan and a "balloon" payment of the principal on the maturity date.

For the nine-month periods ended September 30, 2019 and 2018, the aggregate amounts of loans funded by the Company were \$42,163,704 and \$37,278,346, respectively, offset by principal repayments of \$27,917,331 and \$20,958,280, respectively.

At September 30, 2019, the Company's mortgage loan portfolio included loans ranging in size from approximately \$8,000 to \$2,900,000, with an average loan size of \$206,000, and with stated interest rates ranging from 5.0% to 13.0% and a default interest rate for non-payment of 18%.

At September 30, 2019, no single borrower, or affiliated group of borrowers, accounted for more than 10% of the total outstanding balance of the Company's mortgage loan portfolio.

At the request of the borrower, the Company may extend the term of a mortgage loan provided the loan satisfies the Company's underwriting requirements at the time of the extension. A mortgage loan that is extended is treated as a new loan and the borrower is required to pay all fees associated with the funding of a new loan, including origination fees.

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*Credit Risk*

Credit risk profile of the Company's mortgage loan portfolio as of September 30, 2019 and December 31, 2018 is as follows:

	<u>Residential</u>	<u>Commercial</u>	<u>Land</u>	<u>Mixed Use</u>	<u>Total Outstanding Mortgages</u>
September 30, 2019	\$ 61,086,582	\$ 20,548,936	\$ 6,461,394	\$ 923,626	\$ 89,020,538
December 31, 2018	\$ 52,980,472	\$ 19,250,618	\$ 5,638,113	\$ 1,021,907	\$ 78,891,110

The following are the maturities of mortgage loans receivable as of September 30:

2019	\$ 20,820,611
2020	50,701,366
2021	10,007,796
2022	7,490,765
<b>Total</b>	<b>\$ 89,020,538</b>

At September 30, 2019, of the 432 mortgage loans in the Company's mortgage loan portfolio, sixteen (16) have been referred to counsel for collection and are currently the subject of foreclosure proceedings, of which eight (8) had already been subject to foreclosure proceeding on July 1, 2019. The aggregate outstanding principal balance and the accrued but unpaid interest as of September 30, 2019 on these sixteen loans was approximately \$7.9 million. At September 30, 2018, of the 395 mortgage loans in the Company's portfolio, ten (10) had been referred to counsel for collection and were the subject of foreclosure proceedings. The aggregate outstanding principal balance and the accrued but unpaid interest as of September 30, 2018 on these ten loans was approximately \$5.2 million. In the case of each of these loans, at September 30, 2019 and 2018, the Company believes that the value of the collateral exceeds the outstanding balance on such loan.

**4. Real Estate Owned**

Property purchased for rental or acquired through foreclosure are included on the balance sheet as real estate owned.

As of September 30, 2019, and December 31, 2018, real estate owned totaled \$5,310,523 and \$2,943,438, respectively, with no valuation allowance. As of September 30, 2019, real estate owned included \$906,617 of real estate held for rental and \$4,403,906 of real estate held for sale. As of December 31, 2018, real estate owned included \$887,918 of real estate held for rental and \$2,055,520 of real estate held for sale.

**5. Line of Credit and Mortgage Payable**

*Line of Credit*

Prior to May 11, 2018, the Company maintained a \$20 million revolving credit facility with Bankwell Bank ("Bankwell"). The Bankwell credit facility was secured by substantially all the Company's assets. Interest on the amounts outstanding accrued at a rate equal to the greater of (x) 5.5% and (y) the three-month LIBOR Rate plus 4.50%. At May 11, 2018 the outstanding balance under the Bankwell credit facility was \$18,512,470 and was accruing interest at the rate of 6.79% per annum.

Effective May 11, 2018 (the "Closing Date"), the Company entered into a Credit and Security Agreement with Webster Business Credit Corporation ("WBCC"), Bankwell Bank and Berkshire Bank (collectively, the "Lenders") regarding a new \$35 million revolving credit facility (the "Webster Facility") to replace the Bankwell credit facility. The Webster Facility was secured by a first priority lien on all the Company's assets, including its mortgage loan portfolio. Interest on the outstanding balance accrued at a rate equal to the 30-day LIBOR rate plus 4.00% per annum. All amounts outstanding under the Webster Facility, including principal, accrued interest and other fees and charges, were to be due and payable May 11, 2022.

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On June 25, 2019, the entire outstanding balance on the Webster Facility, including principal, accrued but unpaid interest and other fees, in the aggregate amount of \$19.8 million, was paid in full and the Webster Facility was terminated. In connection with the termination of the Webster Facility, the Company expensed non-recurring charges of \$779,641, of which \$439,446 constituted the write-off of non-cash deferred financing costs.

*Mortgage Payable*

Effective March 29, 2019, the Company refinanced a \$310,000 mortgage loan it obtained from Bankwell in February 2017 with a new mortgage loan from Bankwell Bank in the principal amount of \$795,000 bearing interest at the rate of 5.06% per annum and maturing on March 31, 2029 (the “New Bankwell Mortgage Loan”). Beginning May 2019, principal and interest on the New Bankwell Mortgage Loan is payable, in arrears, in monthly installments of \$4,710. The New Bankwell Mortgage Loan is secured by a first mortgage lien on the property located at 698 Main Street, Branford, Connecticut, which, since March 2019, serves as the Company’s principal place of business.

Principal payments on the New Bankwell Mortgage Loan are due as follows:

Year ending December 31,	
2019	\$ 11,025
2020	17,249
2021	18,142
2022	19,082
2023	20,070
2024 and thereafter	702,580
Total	<u>\$ 788,148</u>

**6. Financing Transactions**

During the nine-month period ended September 30, 2019, the Company generated approximately \$55.7 million of gross proceeds from the sale of its securities as follows:

- (i) \$20,465,203 from the sale of 4,340,456 common shares in an “at-the-market” offerings,
- (ii) \$23,663,000 from the sale of its 7.125% unsecured, unsubordinated notes due June 30, 2024 (the “Notes”),
- (iii) \$ 82,035 from the exercise of 16,407 warrants, and
- (iv) \$11,500,000 from the sale of 2,300,000 common shares from an equity offering

In total, approximately \$31.5 million of the net proceeds from these offerings were used primarily to pay-off the Webster Facility on an ongoing basis until fully paid on June 25, 2019, with the balance used as working capital and for general corporate purposes.

The Notes were sold in an underwritten public offering. The Notes were issued in denomination of \$25.00 each and are listed on the NYSE American and trade under the symbol “SCCB”. Interest on the Notes commenced accruing on June 25, 2019. The accrued interest is payable quarterly in cash, in arrears, on March 30, June 30, September 30 and December 30, commencing September 30, 2019. The Notes mature and the entire principal amount is due June 30, 2024. So long as the Notes are outstanding, the Company is prohibited from making distributions in excess of 90% of its taxable income, incurring any additional indebtedness or purchasing any shares of its capital stock unless it has an “Asset Coverage Ratio” of at least 150% after giving effect to the payment of such dividend, the incurrence of such indebtedness or the application of the net proceeds, as the case may be. The Company may redeem the Notes, in whole or in part, without premium or penalty, at any time after June 25, 2021 upon at least 30 days prior written notice to the holders of the Notes. The redemption price will be equal to the outstanding principal amount of the Notes redeemed plus the accrued but unpaid interest thereon up to, but not including, the date of redemption. The Notes are reflected on the Company’s September 30, 2019 balance sheet net of deferred financing costs in the amount of approximately \$1.2 million.

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**7. Other income**

Other income consists of the following:

	Three Months ended September 30,		Nine Months ended September 30,	
	2019	2018	2019	2018
Borrower charges	\$ 130,871	\$ 23,579	\$ 163,364	\$ 164,296
Lender fees	51,426	26,955	132,397	205,222
In-house legal fees	36,500	7,478	108,200	58,728
Modification and extension fees	86,722	115,544	155,976	194,416
Interest income from investments	28,148	-	28,148	-
Other income	20,004	1,715	62,117	52,168
<b>Total</b>	<b>\$ 353,671</b>	<b>\$ 175,271</b>	<b>\$ 650,202</b>	<b>\$ 674,830</b>

**8. Commitments and Contingencies**

*Origination Fees*

Loan origination fees range from 2%-5% of the original loan principal and, generally, are payable at the time the loan is funded. These payments are amortized for financial statement purposes over the life of the loan and will be recorded as income as follows:

Original maturities of deferred revenue are as follows as of September 30:

2019	\$ 333,198
2020	581,541
2021	117,145
2022	35,783
<b>Total</b>	<b>\$ 1,067,667</b>

If a mortgage loan is paid in full prior to its stated maturity date, the balance of any unamortized deferred revenue is recognized in full.

*Unfunded Commitments*

At September 30, 2019, the Company is committed to future fundings with respect to existing mortgage loans in an amount equal to \$7,329,025 subject to satisfaction by the borrower of the conditions set forth in the note and related mortgage.

*Other*

In the normal course of its business, the Company is named as a party-defendant in various legal proceedings because it is a mortgagee having an interest in real property that is the subject of a foreclosure proceeding, usually resulting from unpaid property taxes. The Company actively monitors these actions and, in all cases, the Company believes that the fair market value of the property subject to foreclosure is in excess of the sum of the unpaid balance of the loan, accrued but unpaid interest and unpaid property taxes, if any.

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**9. Related Party Transactions**

Until March 11, 2019, the Company leased office space, on a month-to-month basis, in a building owned by Union News of New Haven, Inc., an entity that is controlled and 20%-owned by Jeffrey C. Villano, the Company's co-CEO. Rent and other facility related charges paid by the Company to Union News for the nine- and three-month periods ended September 30, 2019 were \$4,500 and \$-0-, respectively, and for the nine- and three-month periods ended June 30, 2018 were \$9,000 and \$4,500, respectively. In March 2019, the Company moved to its operations to a new Company-owned building. Accordingly, rental payments are no longer due to JJV.

Prior to the Exchange, from time to time, SCP would lend funds to JJV (the "JJV Loans"), which JJV would then use to acquire troubled assets from third parties who were not existing SCP borrowers. Those properties are then mortgaged to secure the JJV Loans. As part of the Exchange, the Company acquired the notes evidencing these loans from SCP. The principal balance of the JJV Loans at September 30, 2019 was \$-0-, compared to \$879,457 at December 31, 2018. During the quarter ended September 30, 2019, both of the JJV Loans were assigned to the Company so that the underlying borrower is directly liable to the Company. Interest earned on these mortgage loans for the three and nine months ended September 30, 2019 was \$5,812 and \$40,686, respectively. For the three- and nine-month periods ended September 30, 2018 interest payments on the JJV Loans were \$26,384 and \$85,388, respectively.

In 2018 the Company sold two notes, having an aggregate original principal amount of \$1,717,000, to a shareholder at par. In the first quarter of 2019, the Company sold a third note, having an aggregate original principal amount of \$500,000, to the same shareholder at par. All three notes are secured by commercial properties. The Company continued to service the notes on behalf of the purchaser until paid. In December 2018, the Company reacquired one of the notes, having an original principal amount of \$1,200,000, and in 2019 reacquired the other two notes, having an aggregate principal amount, \$1,017,000. The balance owed to the purchaser for the notes, \$1,200,000 at December 31, 2018, is characterized as due to shareholder on the Company's balance sheets for the relevant periods. On July 26, 2019 all principal and interest due to the shareholder were paid in full.

At September 30, 2019 and December 31, 2018, amounts owed by JJV to the Company were \$22,794 and \$22,977, respectively, and is reflected as other receivables on the Company's balance sheet.

For the nine months ended September 30, 2019 and 2018, the wife of one of our executive officers was paid \$75,000 and \$56,250, respectively, for accounting and financial reporting services provided to the Company.

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**10. Stock-Based Compensation**

On October 27, 2016, the Company adopted the 2016 Equity Compensation Plan (the “Plan”), the purpose of which is to align the interests of the Company’s officers, other employees, advisors and consultants or any subsidiary, if any, with those of the Company’s shareholders and to afford an incentive to such officers, employees, consultants and advisors to continue as such, to increase their efforts on the Company’s behalf and to promote the success of the Company’s business. The basis of participation in the Plan is upon discretionary grants of awards by the Company’s Board of Directors. The Plan is administered by the Compensation Committee. The maximum number of Common Shares reserved for the grant of awards under the Plan is 1,500,000, subject to adjustment as provided in Section 5 of the Plan. The number of securities remaining available for future issuance by the Plan is 1,477,116. Stock based compensation for the three- and nine-month periods ended September 30, 2019 was \$4,107 and \$12,321, respectively.

**11. Subsequent Events**

On October 22, 2019 the Company paid a dividend of \$0.12 per common share, or \$2,654,076 in the aggregate.

On October 3, 2019, the Company’s board of directors authorized the grant of 2,500 common shares to each of its independent directors, of which 625 shares vested immediately upon grant and 625 shares will vest on each of October 4, 2020, 2021 and 2022 (each a “Vesting Date”) unless the director resigns or is removed for “cause” prior to the Vesting Date. The shares, 7,500 in the aggregate, were issued under the Plan. In addition, each independent director entered into a Restricted Stock Agreement with the Company with respect to the 1,875 restricted shares granted to such director.

From October 1 through November 13, 2019, the Company sold 14,317 common shares through its at-the-market offering facility, realizing gross proceeds of \$68,006.

On or about October 7, 2019 the Company filed an amendment to its certificate of incorporation increasing the number of its authorized common shares, par value \$0.001 per share, from 50,000,000 to 100,000,000. The amendment was approved by shareholders at the Company’s 2019 Annual Meeting of Shareholders held on October 3, 2019.

On November 7, 2019, the Company consummated the sale of \$30.0 million aggregate principal amount of its 6.875% unsecured unsubordinated notes due December 30, 2024 (the “November 2019 Notes”). Interest on the November 2019 Notes is payable quarterly in arrears on each March 30, June 30, September 30 and December 30 that they are outstanding beginning December 30, 2019. The Company has the right to prepay the November 2019 Notes, in whole or in part, at any time on or after November 7, 2021. Pending their use, the net proceeds from the offering have been invested in short-term certificates of deposit.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion of the financial condition and results of operations should be read in conjunction with the financial statements and the notes to those statements included elsewhere in this report. Certain statements in this discussion and elsewhere in this report constitute forward-looking statements, within the meaning of section 21E of the Exchange Act, that involve risks and uncertainties. The actual results may differ materially from those anticipated in these forward-looking statements.*

### Company Overview

Sachem Capital Corp. was formed as HML Capital Corp. in January 2016 under the New York Business Corporation Law. On December 15, 2016, we changed our name to Sachem Capital Corp. Prior to February 8, 2017, our business operated as a Connecticut limited liability company under the name Sachem Capital Partners, LLC ("SCP"). On February 9, 2017, we completed our initial public offering (the "IPO") in which we issued and sold 2.6 million of our common shares, \$.001 par value per share ("Common Shares"), at \$5.00 per share, which raised \$13 million of gross proceeds. The net proceeds from the IPO were approximately \$11.1 million. The primary purpose of the IPO was to raise additional equity capital to fund mortgage loans and expand our mortgage loan portfolio. The IPO was also intended to diversify our ownership so that we could qualify, for federal income tax purposes, as a real estate investment trust, or REIT.

We believe that, upon consummation of the IPO, we met all the requirements to qualify as a REIT for federal income tax purposes and elected to be taxed as a REIT beginning with our 2017 tax year. As a REIT, we are entitled to claim deductions for distributions of taxable income to our shareholders thereby eliminating any corporate tax on such taxable income. Any taxable income not distributed to shareholders is subject to tax at the regular corporate tax rates and may also be subject to a 4% excise tax to the extent it exceeds 10% of our total taxable income. To maintain our qualification as a REIT, we are required to distribute each year at least 90% of our taxable income. As a REIT, we may also be subject to federal excise taxes and state taxes.

### Financing Strategy Overview

To continue to grow our business, we must increase the size of our loan portfolio, which requires that we raise additional capital either by selling shares of our capital stock or by incurring additional indebtedness. We do not have a policy limiting the amount of indebtedness that we may incur. Thus, our operating income in the future will depend, in part, on the amount of indebtedness incurred and the spread between our cost of funds and the yield on our loan portfolio. Furthermore, rising interest rates could have an adverse impact on our business if we cannot increase the rates on our loans to offset the increase in our cost of funds and to satisfy investor demand for yield. In addition, rapidly rising interest rates could have an unsettling effect on real estate values, which could compromise some of our collateral.

Historically, we have relied upon both equity capital and debt to grow our business. At December 31, 2018, we had approximately \$52.8 million of shareholders' equity and approximately \$27.5 million of indebtedness, of which approximately \$27.2 million was the outstanding balance on our \$35 million credit facility. Since that date, we have restructured our balance sheet by raising additional equity capital and replacing our existing secured, variable interest rate, senior revolving credit facility with unsecured, unsubordinated fixed rate five-year term notes. At September 30, 2019, shareholders' equity was approximately \$84.3 million, and our indebtedness was approximately \$23.2 million. In connection with the termination of the Webster Facility (as defined below), we incurred termination costs and expenses of approximately \$780,000, including a write-off of unamortized deferred financing costs of approximately \$440,000, or approximately \$0.04 per share based on the weighted number of Common Shares outstanding at June 30, 2019. While the costs of this restructuring had an adverse impact on our operational performance for the nine months ended September 30, 2019, a majority of the costs were non-cash (*i.e.*, deferred financing costs) and non-recurring. Even though net income for the nine months ended September 2019 was adversely impacted by these financing transactions, net cash provided by operations in the first nine months of 2019 increased approximately 94.2% compared to the first nine months of 2018. In addition, we believe, our restructured balance sheet will have a positive impact on our operations over the balance of the year by reducing our operating expenses and providing us with greater operational flexibility.

Specifically, since January 1, 2019, we:

- (i) Refinanced the mortgage on our new corporate headquarters, increasing the loan amount from \$310,000 to \$795,000. The interest rate on the new mortgage loan is fixed at 5.06%, which, although higher than what we were paying on the original mortgage loan, is significantly less than the interest rate on the \$35 million revolving credit facility from Webster Business Credit Corporation, Bankwell Bank and Berkshire Bank that we obtained in May 2018 (the "Webster Facility"), which at the time of the refinancing was 6.49%. The net proceeds from this refinancing, approximately \$495,000, were used to reduce the outstanding balance on the Webster Facility.

- (ii) Sold an aggregate of 4,340,456 Common Shares through “at-the-market” offering facilities for aggregate gross proceeds of \$20,465,203. A substantial portion of these net proceeds, approximately \$15.5 million, were used to pay down the balance on the Webster Facility and approximately \$2.2 million was used to repay an amount due to a shareholder.
- (iii) Sold \$23,663,000 aggregate principal amount of our 7.125% unsecured, unsubordinated notes due June 30, 2024 (the “June 2019 Notes”) in an underwritten public offering. The net proceeds from the sale of the Notes, approximately, \$22.3 million, were used to pay the remaining balance on the Webster Facility, which was then terminated.
- (iv) Sold 16,407 Common Shares through the exercise of warrants providing gross proceeds of \$82,035.
- (v) Sold 2,300,000 Common Shares in an underwritten equity offering for aggregate gross proceeds of \$11,500,000. We intend to use the net proceeds from this offering, approximately \$10.7 million, to grow our portfolio and general corporate purposes.

As a result of these transactions, we strengthened our balance sheet, eliminated the fees and expenses relating to the Webster Facility, which were significant, eliminated the risk associated with variable rate instruments and relieved ourselves from onerous loan covenants, which we felt limited our operational and financing flexibility. We believe these benefits outweigh the higher interest rate we are paying on the Notes relative to the rate we were paying on the Webster Facility.

Because most of the net proceeds from these financing transactions were used to repay existing indebtedness, we were not able to significantly increase our mortgage loan portfolio or revenues in the third quarter of 2019. However, at September 30, 2019 we had \$11.0 million of available cash, which we intend to use to fund new mortgage loans in the fourth quarter of 2019. In addition, on October 31, 2019 we sold \$30.0 million aggregate principal amount of unsecured unsubordinated 6.875% notes due December 30, 2024 (the “November 2019 Notes.”) The net proceeds from the sale of these notes were approximately \$28.6 million. We may sell up to an additional \$4.5 million aggregate principal amount of these notes if the underwriters exercise their over-allotment option in full. The over-allotment option expires November 30, 2019. Third, we can sell up to an additional \$7.0 million of Common Shares through our existing at-the-market offering facility. (The facility was reduced to \$11.5 million from \$30 million in order to accommodate the sale of the November 2019 Notes.) Finally, given our improved balance sheet, we may obtain a new credit facility in the future if we believe the terms are reasonable. Thus, we believe we are well-capitalized for the next 12-18 months and plan to use these funds to increase our mortgage loan portfolio.

### **Operational and Financial Overview**

At September 30, 2019, (i) our loan portfolio included 432 mortgage loans, with individual principal loan amounts ranging from approximately \$8,000 to approximately \$2.9 million and an aggregate loan amount of approximately \$89.0 million, (ii) the average original principal amount of the mortgage loans in the portfolio was approximately \$206,000 and the median mortgage loan amount was \$137,731 and (iii) approximately 77% of the mortgage loans had a principal amount of \$250,000 or less. In comparison, at September 30, 2018, (i) our loan portfolio included 395 mortgage loans, with individual principal loan amounts ranging from \$6,000 to \$2.0 million and an aggregate loan amount of approximately \$77.8 million, (ii) the average original principal amount of the mortgage loans in the portfolio was \$197,000 and the median mortgage loan amount was \$136,000 and (iii) approximately 79.5% of the mortgage loans had a principal amount of \$250,000 or less. At September 30, 2019 and 2018, unfunded commitments for future advances totaled approximately \$7.3 million and \$6.8 million, respectively.

For the three months ended September 30, 2019, revenues and net income were approximately \$3.4 million and \$2.1 million, respectively. For the three months ended September 30, 2018, revenues and net income were approximately \$3.1 million and \$2.0 million, respectively. For the nine months ended September 30, 2019, revenues and net income were approximately \$9.8 million and \$5.3 million, respectively. For the nine months ended September 30, 2018, revenues and net income were approximately \$8.8 million and \$6.1 million, respectively.

Our operating expenses have increased significantly primarily due to the growth in our operations.

The mortgage loans that we originate typically have a maximum initial term of one to three years and bear interest at a fixed rate of 5% to 13% per year and a default rate of 18% per year. For the three and nine month periods ended September 30, 2019, the yield on our mortgage loan portfolio was 12.66% and 12.58%, respectively.

We usually receive origination fees, or “points,” ranging from 2% to 5% of the original principal amount of the loan as well as other fees relating to underwriting, funding and managing the loan, such as inspection fees. Since we treat an extension or renewal of an existing loan as a new loan, we also receive additional “points” and other loan-related fees in connection with those transactions. Interest is always payable monthly in arrears. As a matter of policy, we do not make any loans if the loan-to-value ratio exceeds 70%. However, in the case of loans secured by property undergoing construction or renovation and that have future funding obligations, the loan-to-value ratio is based on the estimated post-construction or post-renovation value of the property. Accordingly, during the construction or renovation period the loan amount could exceed the actual value of the property. Generally, we rely on readily available market data, including tax assessment rolls, recent sales transactions, brokers and, in some cases, third-party appraisals to evaluate the strength of the collateral. Finally, we have adopted a policy that limits the maximum amount of any loan we fund to a single borrower or a group of affiliated borrowers to 10% of the aggregate amount of our loan portfolio after taking into account the loan under consideration.

Our revenue consists primarily of interest earned on our loan portfolio and our net income is the spread between the interest we earn and our cost of funds. Our capital structure is more heavily weighted to equity rather than debt (approximately 78% vs.22% of our total capitalization at September 30, 2019). At September 30, 2019, the annual yield on our loan portfolio was 12.66% per annum. The yield has remained steady over the past few years as older loans come due and are either repaid or refinanced at similar rates. The yield reflected above does not include other amounts collected from borrowers such as origination fees, default rates of interest and late payment fees.

In addition, we seek to mitigate some of the risk associated with rising rates by generally limiting the term of new loans to one year. If, at the end of the term, the loan is not in default and meets our other underwriting criteria, we will consider an extension or renewal of the loan at our then prevailing interest rate. However, if interest rates continue to increase, we may find it necessary to change our strategy and try to increase the rates on our mortgage loans as well. If we are successful, this may undermine our strategy to increase market share. If we are not successful, the “spread” between our borrowing costs and the yield on our portfolio will be squeezed and would adversely impact our net income. We cannot assure you that we will be able to increase our rates at any time in the future and we cannot assure you that we can continue to increase our market share.

As a real estate finance company, we deal with a variety of default situations, including breaches of covenants, such as the obligation of the borrower to maintain adequate insurance on the mortgaged property, to pay the taxes on the property and to make timely payments to us. As such, we may not be aware that a default occurred. As a result, we are unable to quantify the number of loans that may have, at one time or another, been in default. Since inception through September 30, 2019, we have made approximately 1,100 mortgage loans having an aggregate original principal amount of approximately \$217 million.

At September 30, 2019, of the 432 mortgage loans in our portfolio, sixteen have been referred to legal counsel for collection and are the subject of foreclosure proceedings. The aggregate outstanding principal balance of these sixteen mortgage loans and the accrued but unpaid interest as of September 30, 2019 was approximately \$7.9 million, representing approximately 8.87% of our aggregate mortgage loan portfolio. In the case of each of these sixteen mortgage loans, we believe the value of the collateral exceeds the sum of the outstanding principal balance of the loan, the accrued but unpaid interest on the loan and any unpaid property taxes due with respect to the collateral.

At September 30, 2019, real estate owned included sixteen properties having an aggregate book value of approximately \$5.3 million. At December 31, 2018, real estate owned included eleven properties having an aggregate book \$2.9 million.

The key factors contributing to our growth to date have been our ability to access working capital and the strong demand for our products and services, which was driven principally by a robust Connecticut real estate market. These factors coincided with the overall growth in the U.S. economy. In the second quarter of 2019, we curtailed our lending operations due to a shortage of working capital and our desire to repay in full our credit facility with Webster Bank, which adversely impacted our revenues and net income for the second and third quarters of 2019. In addition, beginning in the second half of 2018 and continuing through the third quarter of 2019, we started noticing subtle changes in the business environment. For example, traditional lending institutions, such as banks, appeared to be tightening their credit requirements. Normally, that would be a positive development for our business. However, at the same time, property values in Connecticut were either stagnant or declining and the length of time between initial listing and sale was expanding. It is unclear whether these developments are merely temporary phenomena or represent long-term trends. In the meantime, the demand for our products and services continues to be robust. We believe that our best strategy to deal with adverse changes in the marketplace is to adhere to our basic underwriting guidelines. Those two factors, together with our liquidity, lead us to believe that we are well-positioned to address the changes and new trends in the real estate lending market.

#### **REIT Qualification**

We believe that we have qualified as a REIT since the consummation of the IPO and that it is in the best interests of our shareholders that we operate as a REIT. We made the election to be taxed as a REIT beginning with our 2017 tax year. As a REIT, we are required to distribute at least 90% of our taxable income to our shareholders on an annual basis. We cannot assure you that we will be able to maintain REIT status.

Our qualification as a REIT depends on our ability to meet on a continuing basis, through actual investment and operating results, various complex requirements under the Internal Revenue Code of 1986, as amended (the "Code"), relating to, among other things, the sources of our gross income, the composition and values of our assets, our compliance with the distributions requirements applicable to REITs and the diversity of ownership of our outstanding Common Shares. Given that our senior executive officers, Jeffrey C. Villano and John L. Villano, own a significant portion of our outstanding capital shares, we cannot assure you that we will be able to maintain that qualification.

So long as we qualify as a REIT, we, generally, will not be subject to U.S. federal income tax on our taxable income that we distribute currently to our shareholders. If we fail to qualify as a REIT in any taxable year and do not qualify for certain statutory relief provisions, we will be subject to U.S. federal income tax at regular corporate income tax rates and may be precluded from electing to be treated as a REIT for four taxable years following the year during which we lose our REIT qualification. Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income.

#### **Emerging Growth Company Status**

We are an "emerging growth company," as defined in the JOBS Act, and, for as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to emerging growth companies, including, but not limited to, not being required to have our independent registered public accounting firm audit our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. As an emerging growth company, we can also delay adopting new or revised accounting standards until those standards apply to private companies. We intend to avail ourselves of these options. Once adopted, we must continue to report on that basis until we no longer qualify as an emerging growth company.

We will cease to be an emerging growth company upon the earliest of: (i) the end of the 2022 fiscal year; (ii) the first fiscal year after our annual gross revenue are \$1.07 billion or more; (iii) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt securities; or (iv) the end of any fiscal year in which the market value of our Common Shares held by non-affiliates exceeded \$700 million as of the end of the second quarter of that fiscal year. We cannot predict if investors will find our Common Shares less attractive if we choose to rely on these exemptions. If, as a result of our decision to reduce future disclosure, investors find our Common Shares less attractive, there may be a less active trading market for our Common Shares and the price of our Common Shares may be more volatile.

As an “emerging growth company,” we intend to avail ourselves of the reduced disclosure requirements and extended transition periods for adopting new or revised accounting standards that would otherwise apply to us as a public reporting company. Once adopted, we must continue to report on that basis until we no longer qualify as an emerging growth company. As a result, our financial statements may not be comparable to those of other public reporting companies that either are not emerging growth companies or that are emerging growth companies but have opted not to avail themselves of these provisions of the JOBS Act and investors may deem our securities a less attractive investment relative to those other companies, which could adversely affect our stock price.

### **Critical Accounting Policies and Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our use of estimates on a preset number of assumptions that consider (a) past experience, (b) future projections and (c) general financial market conditions. Actual amounts could differ materially from those estimates.

Interest income from commercial loans is recognized, as earned, over the loan period and origination fee revenue on commercial loans is amortized over the term of the respective note.

### **Results of operations**

#### **Three months ended September 30, 2019 and 2018**

##### *Total revenue*

Total revenue for the three months ended September 30, 2019 was approximately \$3.4 million compared to approximately \$3.1 million for the three months ended September 30, 2018, an increase of approximately 10.7%. The increase in revenue reflects the increase in our lending operations. Compared to the 2018 period, for the 2019 period, interest income was higher by approximately \$171,000, origination fees higher by approximately \$114,000 and other income higher by approximately \$150,000. These increases were offset by reductions of approximately \$107,000 in gain on sale of real estate and approximately \$42,000 in late fee income.

##### *Operating costs and expenses*

Total operating costs and expenses for three months ended September 30, 2019 were approximately \$1.3 million compared to \$1.1 million for the three months ended September 30, 2018 period, an increase of approximately 21.6%. The increase in operating costs and expenses is primarily attributable to increases in interest and amortization of deferred financing costs of approximately \$44,000, professional fees of approximately \$51,000 and compensation, fees and taxes of approximately \$132,000, offset by stock-based compensation of approximately \$25,000 and general and administrative expenses of approximately \$11,000.

##### *Net Income*

Net income for the three months ended September 30, 2019 was approximately \$2.1 million, or \$0.10 per share, compared to \$2.0 million, or \$0.13 per share for the three months ended September 30, 2018. The decrease in earnings per share is due to the increase in the weighted average number of shares outstanding

#### **Nine months ended September 30, 2019 and 2018**

##### *Total revenue*

Total revenue for the nine months ended September 30, 2019 was approximately \$9.8 million compared to approximately \$8.8 million for the nine months ended September 30, 2018, an increase of approximately \$980,000, or 11.1%. The increase in revenue resulted from an increase in lending operations. For the 2019 period, interest income was approximately \$7.5 million, net origination fees were approximately \$1.2 million and other income approximately \$650,000. In comparison, for the nine months ended September 30, 2018, interest income was approximately \$6.6 million, net origination fees were approximately \$1.1 million and other income was approximately \$675,000. Finally, late and other fee income increased by approximately \$61,000. These increases were offset, in part, by a reduction in gain on the sale of real estate of approximately \$100,000.

### *Operating costs and expenses*

Total operating costs and expenses for nine months ended September 30, 2019 were approximately \$4.5 million compared to \$2.7 million for the nine months ended September 30, 2018 period, an increase of approximately 70.0%. The increase in operating costs and expenses is partially attributable to \$780,000 of expense incurred in connection with the termination of the Webster Credit Facility. In addition to that expense being a non-recurring charge, \$439,446 represents a write-off of unamortized deferred financing costs, a non-cash item. The second biggest contributor to the increase in operating costs and expenses was interest and amortization of deferred financing costs, which increased approximately \$512,000 reflecting the increase in our mortgage loan portfolio, an increase in the interest rate on the Webster Facility and the slightly higher cost of capital on our unsecured notes. Another contributor to the overall increase in operating costs and expenses was a \$423,000 increase in compensation expense (including stock-based compensation). This increase reflects the increase in base salary paid to our co-chief executive officers, which was effective as of July 1, 2018, as well as compensation to our controller, who was hired in August 2018, and our in-house legal counsel, who was hired in November 2018. Finally, general and administrative expenses increased approximately \$86,000.

### *Net Income*

Net income for the nine months ended September 30, 2019 was approximately \$5.3 million, or \$0.30 per share. In comparison, net income for the nine months ended September 30, 2018 was \$6.1 million, or \$0.40 per share. The decrease in net income was due to the increase in total operating expenses and most of that increase was attributable to the expense in connection with the termination of the Webster Credit Facility, which was incurred in the second quarter. We estimate the impact of that expense was to reduce earnings per share by approximately \$0.04. In addition, earnings per share was negatively impacted by the increase in the weighted average number of shares outstanding

### **Liquidity and Capital Resources**

At September 30, 2019, we had approximately \$11.0 million in cash, none of which is restricted, compared to cash of approximately \$158,900 (including restricted cash) at December 31, 2018.

Net cash provided by operating activities for the nine months ended September 30, 2019 was approximately \$7.3 million compared to approximately \$3.8 million for the same 2018 period, an increase of approximately \$3.5 million or 94.2%. For the 2019 period, the total adjustments to net income were approximately positive \$2.1 million reflecting a (i) \$440,000 adjustment for non-cash costs associated with the termination of the Webster Facility and (ii) \$2.1 million decrease in due from borrowers, offset by a (i) \$450,000 increase in interest and fees receivable, (ii) \$177,000 decrease in due to note purchaser and (iii) \$160,000 decrease in accrued expenses. In comparison, for the 2018 period, the total adjustments to net income were approximately negative \$2.37 million, reflecting a (i) \$723,000 decrease in the amount due to the note purchaser, (ii) \$296,000 decrease in accrued expenses, (iii) \$309,000 increase in due from borrowers, (iv) \$917,000 increase in interest and fees receivable, (v) \$151,000 increase in other receivables and (vi) \$120,000 gain on sale of real estate, offset by (i) \$90,000 in amortization of deferred financing cost, (ii) \$20,000 in depreciation expense, (iii) \$29,250 in stock-based compensation, (iv) \$111,000 decrease in escrow deposits, (v) \$117,000 increase in accrued interest and (vi) \$44,000 increase in deferred revenue.

Net cash used for investing activities for the nine months ended September 30, 2019 was approximately \$14.5 million compared to approximately \$16.1 million for the comparable 2018 period. This decrease is primarily due to a \$7.0 million increase in principal collections on mortgages receivable, offset by a (i) \$4.9 million increase in principal disbursements for mortgages receivable, (ii) \$340,000 increase in costs to acquire and improve real estate owned and (iii) \$310,000 decrease in proceeds from the sale of real estate.

Net cash provided by financing activities for the nine months ended September 30, 2019 was approximately \$18.1 million compared to approximately \$11.9 million for the comparable 2018 period. Net cash provided by financing activities for the 2019 period consists primarily of approximately (i) \$42.7 million of proceeds from the Webster Facility, (ii) \$19.8 million of net proceeds from the sale of Common Shares, (iii) \$10.7 million of net proceeds from the sale of Common Shares, (iv) \$82,000 in gross proceeds from the exercise of warrants, (v) \$22.4 million of net proceeds from the sale of the June 2019 Notes, (vi) \$1.0 million of proceeds from the sale of mortgage notes and (vii) \$800,000 of gross proceeds from the New Bankwell Mortgage Loan, offset by approximately (i) \$69.9 million of repayments on the Webster Facility, (ii) \$7.0 million of dividends paid, (iii) \$298,000 repayment of the Old Bankwell Mortgage Loan and (iv) 2.2 million of repayment of notes due to shareholder. For the 2018 period, net cash from financing activities consisted primarily of approximately \$61.0 million of proceeds from our credit facilities offset by approximately (i) \$43.7 million of repayments on our credit facilities, (ii) \$4.9 million of dividends paid and (iii) \$567,000 of financing costs (most of which related to the Webster Facility.)

## 2019 Financing Transactions

In the first nine months of 2019, we consummated the following financing transactions:

### *Refinancing of Bankwell Mortgage*

We refinanced the \$310,000 mortgage loan obtained from Bankwell Bank in February 2017 (the “Old Bankwell Mortgage Loan”) with a new 10-year mortgage loan from Bankwell Bank in the principal amount of \$795,000 bearing interest at the rate of 5.06% per annum and maturing on March 31, 2029 (the “New Bankwell Mortgage Loan”). Monthly payments of interest and principal on the New Bankwell Mortgage Loan, \$4,710, are payable in arrears starting May 1, 2019, calculated based on a 25-year amortization rate. Interest on the Old Bankwell Mortgage Loan accrued at the rate of 4.52% per annum and the monthly installment payments were \$1,975. The entire outstanding principal balance of the New Bankwell Mortgage Loan and all accrued and unpaid interest thereon is due and payable on March 31, 2029. The New Bankwell Mortgage Loan, among other things, is secured by a first mortgage lien on the real property owned by us, which currently serves as our principal place of business, located at 698 Main Street, Branford, Connecticut. In connection with the New Bankwell Mortgage Loan, John L. Villano and Jeffrey C. Villano, our Co-Chief Executive Officers, jointly and severally, during the term of the loan, indemnified Bankwell Bank from and against any and all actual claims, demands, liabilities, losses, damages, judgments, penalties, reasonable out-of-pocket costs and expenses arising out of or attributable to the New Bankwell Mortgage Loan.

### *At-the-Market Offerings*

Over the first nine months of 2019, we sold an aggregate of 4,340,456 Common Shares through our at-the-market offering facilities. Gross proceeds from these sales were \$20,465,203 and the net proceeds were \$19,836,610.

### *June 2019 Note Offering*

In June and July 2019 we sold, in a registered public offering, \$23,663,000 aggregate principal amount of our 7.125% unsecured, unsubordinated notes due June 30, 2024 (the “June 2019 Notes”). The net proceeds from the sale of the June 2019 Notes were approximately \$22.3 million. The June 2019 Notes were issued in denomination of \$25.00 each and are listed on the NYSE American and trade under the symbol “SCCB.” Interest accrues on the June 2019 Notes commencing on June 25, 2019. Accrued interest is payable quarterly, in cash, in arrears, on each March 30, June 30, September 30 and December 30 that they are outstanding, commencing September 30, 2019. So long as the June 2019 Notes are outstanding, we are prohibited from making distributions in excess of 90% of our taxable income, incurring any additional indebtedness or purchasing any shares of our capital stock unless we have an “Asset Coverage Ratio” of at least 150% after giving effect to the payment of such dividend, the incurrence of such indebtedness or the application of the net proceeds, as the case may be. We may redeem the June 2019 Notes, in whole or in part, without premium or penalty, at any time on or after June 30, 2021 upon at least 30 days prior written notice to the holders of the June 2019 Notes. The redemption price will be equal to the outstanding principal amount of the June 2019 Notes redeemed plus the accrued but unpaid interest thereon up to, but not including, the date of redemption.

In July and August 2019, we sold an aggregate of 2,300,000 Common Shares at \$5.00 per share pursuant to an underwritten public offering, including 300,000 shares from the exercise of the over-allotment option by the underwriter of the offering, Aegis Capital Corp. The offering was made pursuant to a Prospectus Supplement filed under the Company’s S-3 Registration Statement, dated November 9, 2018. The net proceeds to us from the offering were approximately \$10.9 million, after deducting underwriting discounts and commission but before deducting other transaction costs.

On July 16, 2019, we received gross proceeds of \$82,035 from the exercise of 16,407 warrants having an exercise price of \$5.00 per share.

We project anticipated cash requirements for our operating needs as well as cash flows generated from operating activities available to meet these needs. Our short-term cash requirements primarily include funding of loans and payments for usual and customary operating and administrative expenses, such as employee compensation, rent, sales, marketing expenses and dividends. Based on this analysis, we believe that our current cash balances, and our anticipated cash flows from operations will be sufficient to fund the operations for the next 12 months.

Our long-term cash needs include funding of new mortgage loans, payment of operating expenses, interest payments on our outstanding notes and dividend payments to our shareholders. Funding for long-term cash needs will come from our cash on hand, operating cash flows and financing transactions, whether sales of equity securities, debt securities or a new revolving credit facility.

From and after the effective date of our REIT election, we intend to pay regular quarterly distributions to holders of our Common Shares in an amount not less than 90% of our REIT taxable income (determined before the deduction for dividends paid and excluding any net capital gains).

On July 11, 2019, we declared a dividend of \$0.12 per common share, which was paid on July 29, 2019 to shareholders of record on July 22, 2019. The total amount of the dividend payment was \$2,348,452.

On July 26, 2019, we repaid an amount owed to a shareholder in connection with the repurchase of certain mortgage loans. The total payment was \$2,231,777, including principal of \$2,217,000 and accrued interest of \$14,777.

#### **Subsequent Events**

On October 3, 2019, we declared a dividend of \$0.12 per common share, which was paid on October 22, 2019 to shareholders of record on October 14, 2019. The total amount of the dividend payment was \$2,654,076.

From October 1 through November 13, 2019, we sold 14,317 Common Shares through our at-the-market offering facility and realized gross proceeds of \$68,006 from such sales. Approximately \$7.0 million remains available to us for future sales under the facility. (The facility was reduced to \$11.5 million from \$30 million in order to accommodate the sale of the November 2019 Notes.)

In November 2019 we sold, in a registered public offering, \$30.0 aggregate principal amount of our 6.875% unsecured, unsubordinated notes due December 30, 2024 (the "November 2019 Notes"). The net proceeds from the sale of the November 2019 Notes were approximately \$28.6 million. The November 2019 Notes were issued in denomination of \$25.00 each and are listed on the NYSE American and trade under the symbol "SACC." Interest accrues on the November 2019 Notes commencing on November 7, 2019. Accrued interest is payable quarterly, in cash, in arrears, on each March 30, June 30, September 30 and December 30 that they are outstanding, commencing December 30, 2019. So long as the November 2019 Notes are outstanding, we are prohibited from making distributions in excess of 90% of our taxable income, incurring any additional indebtedness or purchasing any shares of our capital stock unless we have an "Asset Coverage Ratio" of at least 150% after giving effect to the payment of such dividend, the incurrence of such indebtedness or the application of the net proceeds, as the case may be. We may redeem the November 2019 Notes, in whole or in part, without premium or penalty, at any time on or after November 7, 2021 upon at least 30 days prior written notice to the holders of the November 2019 Notes. The redemption price will be equal to the outstanding principal amount of the November 2019 Notes redeemed plus the accrued but unpaid interest thereon up to, but not including, the date of redemption.

#### **Off-Balance Sheet Arrangements**

We are not a party to any off-balance sheet transactions, arrangements or other relationships with unconsolidated entities or other persons that are likely to affect liquidity or the availability of our requirements for capital resources.

#### **Contractual Obligations**

As of September 30, 2019, our contractual obligations include unfunded amounts of any outstanding construction loans and unfunded commitments for loans as well as contractual obligations consisting of operating leases for equipment.

	<b>Total</b>	<b>Less than 1 year</b>	<b>1 – 3 years</b>	<b>3 – 5 years</b>	<b>More than 5 years</b>
Operating lease obligation	\$ —	\$ —	\$ —	\$ —	\$ —
Capital lease obligation	11,573	2,672	3,121	5,780	—
Unfunded portions of outstanding construction loans	7,329,025	7,329,025	—	—	—
Unfunded loan commitments	—	—	—	—	—
<b>Total contractual obligations</b>	<b>\$ 7,340,598</b>	<b>\$ 7,331,697</b>	<b>\$ 3,121</b>	<b>\$ 5,780</b>	<b>\$ —</b>

## **Recent Accounting Pronouncements**

See “Note 2— Significant Accounting Policies” to the financial statements for explanation of recent accounting pronouncements impacting us.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a smaller reporting company, we are not required to provide the information required by this Item.

### **Item 4. CONTROLS AND PROCEDURES**

#### **(a) Evaluation and Disclosure Controls and Procedures**

Our management, with the participation of our co-chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2019 (the “Evaluation Date”). Based upon that evaluation, the chief executive officer and the chief financial officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) are recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (ii) are accumulated and communicated to our management, including its chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

#### **(b) Changes in Internal Control Over Financial Reporting**

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) identified in connection with the evaluation required by Rules 13a-15(d) or 15d-15(d) that occurred during the fiscal quarter ended September 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 6. EXHIBITS**

Exhibit No.	Description
<a href="#">2.1</a>	<a href="#">Form of Amended and Restated Exchange Agreement (1)</a>
<a href="#">3.1</a>	<a href="#">Certificate of Incorporation (1)</a>
<a href="#">3.1(a)</a>	<a href="#">Certificate of Amendment to Certificate of Incorporation (1)</a>
<a href="#">3.1(b)</a>	<a href="#">Certificate of Amendment to Certificate of Incorporation filed on October 7, 2019*</a>
<a href="#">3.2</a>	<a href="#">Bylaws, as amended (2)</a>
<a href="#">4.1</a>	<a href="#">Form of Representative's Warrants (4)</a>
<a href="#">4.2</a>	<a href="#">Form of Representatives' Warrants issued on October 27, 2017 in connection with the follow-on underwritten public offering (3)</a>
<a href="#">4.3</a>	<a href="#">Indenture, dated as of June 21, 2019, between the Company and U.S. Bank National Association, as Trustee (7)</a>
<a href="#">4.4</a>	<a href="#">First Supplemental Indenture, dated as of June 25, 2019, between the Company and U.S. Bank National Association, as Trustee (7)</a>
<a href="#">4.5</a>	<a href="#">Form of 7.125% Note due 2024 (7)</a>
<a href="#">4.6</a>	<a href="#">Second Supplemental Indenture between the Company and U.S. Bank National Association, as Trustee*</a>
<a href="#">4.7</a>	<a href="#">Form of 6.875% Note due 2024 (8)</a>
<a href="#">10.1**</a>	<a href="#">Employment Agreement by and between John C. Villano and Sachem Capital Corp. (1)</a>
<a href="#">10.2**</a>	<a href="#">Employment Agreement by and between Jeffrey L. Villano and Sachem Capital Corp. (1)</a>
<a href="#">10.3</a>	<a href="#">Sachem Capital Corp. 2016 Equity Compensation Plan (1)</a>
<a href="#">10.4</a>	<a href="#">Final Form of the Restrictive Stock Grant Agreement dated July 17, 2018 under the Sachem Capital Corp. 2016 Equity Compensation Plan between the Company and each of Leslie Bernhard, Arthur Goldberg and Brian Prinz (5)</a>
<a href="#">10.5</a>	<a href="#">Mortgage Note made by Sachem Capital Corp to Bankwell Bank, dated as of March 29, 2019, in the principal amount of \$795,000 (6)</a>
<a href="#">10.6</a>	<a href="#">Open-End Mortgage Deed, Security Agreement and Fixture Filing, dated March 29, 2019, by Sachem Capital Corp., in connection with the New Bankwell Mortgage Loan, for the benefit of Bankwell Bank (6)</a>
<a href="#">10.7</a>	<a href="#">Indemnity Agreement, dated as of March 29, 2019, by and among John L. Villano, Jeffrey C. Villano and Bankwell Bank (6)</a>
<a href="#">10.8</a>	<a href="#">Final Form of the Restrictive Stock Grant Agreement dated October 4, 2019 under the Sachem Capital Corp. 2016 Equity Compensation Plan between the Company and each of Leslie Bernhard, Arthur Goldberg and Brian Prinz *</a>
<a href="#">31.1</a>	<a href="#">Chief Executive Officer Certification as required under section 302 of the Sarbanes Oxley Act *</a>
<a href="#">31.2</a>	<a href="#">Chief Financial Officer Certification as required under section 302 of the Sarbanes Oxley Act *</a>
<a href="#">32.1</a>	<a href="#">Chief Executive Officer Certification pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 906 of the Sarbanes Oxley Act ***</a>
<a href="#">32.2</a>	<a href="#">Chief Financial Officer Certification pursuant to 18 U.S.C. section 1350 as adopted pursuant to section 906 of the Sarbanes Oxley Act ***</a>
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *

\* Filed herewith.

\*\* Compensation plan or arrangement for current or former executive officers and directors.

\*\*\* Furnished, not filed, in accordance with item 601(32)(ii) of Regulation S-K.

- (1) Previously filed as an exhibit to the Registration Statement on Form S-11, as amended, (SEC File No.: 333-214323) and incorporated herein by reference.
- (2) Previously filed as an exhibit to the Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated herein by reference.
- (3) Previously filed on October 20, 2017, as Exhibit A to Exhibit 1.1 of the Registration Statement on Form S-11, as amended, (SEC File No.: 333-218954) and incorporated herein by reference.
- (4) Previously filed on December 23, 2016, as Exhibit A to Exhibit 1.1 of the Registration Statement on Form S-11, as amended, (SEC File No.: 333-214323) and incorporated herein by reference.
- (5) Previously filed as an exhibit to the Quarterly Report on Form 10-Q for the period ended June 30, 2018 and incorporated herein by reference.
- (6) Previously filed as an exhibit to the Current Report on Form 8-K on April 5, 2019 and incorporated herein by reference.
- (7) Previously filed as an exhibit to the Current Report on Form 8-K on June 25, 2019 and incorporated herein by reference.
- (8) Previously filed as an exhibit to the Current Report on Form 8-K on November 6, 2019 and incorporated herein by reference.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SACHEM CAPITAL CORP.

Date: November 13, 2019

By: /s/ Jeffrey C. Villano  
Jeffrey C. Villano  
Co-Chief Executive Office  
(Principal Executive Officer)

Date: November 13, 2019

By: /s/ John L. Villano  
John L. Villano, CPA  
Co-Chief Executive Office and Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATE OF AMENDMENT OF THE CERTIFICATE OF INCORPORATION**

**OF**

**SACHEM CAPITAL CORP.**

(Pursuant to Section 805 of the Business Corporation Law)

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It is hereby certified that:

FIRST: The current name of the corporation is SACHEM CAPITAL CORP and the name under which it was originally formed is HML CAPITAL CORP.

SECOND: The certificate of incorporation of the corporation was filed by the Department of State on January 25, 2016.

THIRD: The amendment of the certificate of incorporation of the corporation effected by this certificate of amendment is as follows:

Paragraph FOURTH of the certificate of incorporation of the corporation relating to the aggregate number of shares which the corporation shall have the authority to issue is hereby amended to increase the number of common shares the corporation shall have authority to issue from 50,000,000 to 100,000,000, and the 5,000,000 preferred shares shall remain unchanged. As amended, Paragraph FOURTH of the certificate of incorporation of the corporation shall read in its entirety as follows:

FOURTH: The aggregate number of shares which the corporation shall have authority to issue is 105,000,000 of which 100,000,000 shall be common shares, par value \$.001 per share (the "Common Shares") and 5,000,000 shall be preferred shares, par value \$.001 per share (the "Preferred Shares"). The Preferred Shares may be issued, from time to time, in one or more series with such designations, preferences and relative participating optional or other special rights and qualifications, limitations or restrictions thereof including but not limited to preemptive rights (notwithstanding anything contained to the contrary in Article TENTH hereof), as shall be stated in the resolutions adopted by the Board of Directors providing for the issuance of such Preferred Shares or series thereof; and the Board of Directors is hereby expressly vested with authority to fix such designations, preferences and relative participating optional or other special rights or qualifications, limitations or restrictions for each series, including, but not by way of limitation, the power to affix the redemption and liquidation preferences, the rate of dividends payable and the time for and the priority of payment thereof and to determine whether such dividends shall be cumulative or not and to provide for and affix the terms of conversion of such Preferred Shares or any series thereof into Common Shares of the corporation and fix the voting power, if any, of Preferred Shares or any series thereof and to provide for preemptive rights (notwithstanding anything contained to the contrary in Article TENTH hereof).

FOURTH: The certificate of amendment was authorized by the vote of the board of directors of the corporation followed by a vote of a majority of all outstanding shares entitled to vote thereon at a meeting of shareholders.

Executed on this 3rd day of October, 2019.

/s/ John L. Villano  
Name: John L. Villano  
Title: Co-Chief Executive Officer

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**CERTIFICATE OF AMENDMENT OF THE CERTIFICATE OF INCORPORATION**  
**OF**  
**SACHEM CAPITAL CORP.**

(Pursuant to Section 805 of the Business Corporation Law)

Filer:

John C. Hui, Esq.  
Kurzman Eisenberg Corbin & Lever, LLP  
One North Broadway, 12<sup>th</sup> Floor  
White Plains, New York 10601

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**SECOND SUPPLEMENTAL INDENTURE**

**between**

**SACHEM CAPITAL CORP.**

**and**

**U.S. BANK NATIONAL ASSOCIATION**

**as Trustee**

**Dated as of November 7, 2019**

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**SECOND SUPPLEMENTAL INDENTURE**

THIS SECOND SUPPLEMENTAL INDENTURE (this “Second Supplemental Indenture”), dated as of November 7, 2019, is between Sachem Capital Corp., a New York corporation (the “Company”), and U.S. Bank National Association, as trustee (the “Trustee”). Except as otherwise set forth in this Second Supplemental Indenture, all capitalized terms used herein shall have the meaning set forth in the Base Indenture (as defined below).

**RECITALS OF THE COMPANY**

The Company and the Trustee executed and delivered an Indenture, dated as of June 21, 2019 (the “Base Indenture” and, as supplemented by this Second Supplemental Indenture, the “Indenture”), to provide for the issuance by the Company from time to time of the Company’s unsecured debentures, notes or other evidences of indebtedness (the “Securities”), to be issued in one or more series as provided in the Indenture.

The Company desires to issue and sell up to \$30,000,000 aggregate principal amount (or up to \$34,500,000 aggregate principal amount if the underwriters’ option to purchase additional Securities is exercised in full) of the Company’s 6.875% Notes due December 30, 2024 (the “Notes”).

Sections 901(4) and 901(6) of the Base Indenture provide that without the consent of Holders of the Securities of any series issued under the Indenture, the Company, when authorized by or pursuant to a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental to the Base Indenture to (i) change or eliminate any of the provisions of the Base Indenture when there is no Security Outstanding of any series created prior to the execution of the supplemental indenture that is entitled to the benefit of such provision and (ii) establish the form or terms of Securities of any series as permitted by Section 201 and Section 301 of the Base Indenture.

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The Company desires to establish the form and terms of the Notes and to modify, alter, supplement and change certain provisions of the Base Indenture for the benefit of the Holders of the Notes (except as may be provided in a future supplemental indenture to the Base Indenture (“Future Supplemental Indenture”).

The Company has duly authorized the execution and delivery of this Second Supplemental Indenture to provide for the issuance of the Notes and all acts and things necessary to make this Second Supplemental Indenture a valid, binding, and legal obligation of the Company and to constitute a valid agreement of the Company, in accordance with its terms, have been done and performed.

NOW, THEREFORE, for and in consideration of the premises and the purchase of the Notes by the Holders thereof, it is mutually agreed, for the equal and proportionate benefit of all Holders of the Notes, as follows:

## ARTICLE I.

### TERMS OF THE NOTES

**Section 1.01. Terms of the Notes.** The following terms relating to the Notes are hereby established:

(a) The Notes shall constitute a series of Senior Securities having the title “6.875% Notes due December 30, 2024.” The Notes shall bear a CUSIP number of 78590A 307 and an ISIN of US78590A3077.

(b) The aggregate principal amount of the Notes that may be initially authenticated and delivered under the Indenture (except for Notes authenticated and delivered upon registration of, transfer of, or in exchange for, or in lieu of, other Notes pursuant to Sections 304, 305, 306, 906, 1107 or 1305 of the Base Indenture, and except for any Securities that, pursuant to Section 303 of the Base Indenture, are deemed never to have been authenticated and delivered under the Indenture) shall be up to \$30,000,000 (or up to \$34,500,000 aggregate principal amount if the underwriters’ option to purchase additional Securities is exercised in full). Under a Board Resolution, Officers’ Certificate pursuant to Board Resolutions or an indenture supplement, the Company may from time to time, without the consent of the Holders of Notes, issue additional Notes (in any such case “Additional Notes”) having the same ranking and the same interest rate, maturity and other terms as the Notes. Any Additional Notes and the existing Notes will constitute a single series under the Indenture and all references to the relevant Notes herein shall include the Additional Notes unless the context otherwise requires.

(c) The entire outstanding principal of the Notes shall be payable on December 30, 2024, unless earlier redeemed or repurchased in accordance with the provisions of the Indenture.

(d) The rate at which the Notes shall bear interest shall be 6.875% per annum. The Interest Payment Dates for the Notes shall be March 30, June 30, September 30 and December 30 of each year, commencing December 30, 2019 (if an Interest Payment Date falls on a day that is not a Business Day, then the applicable interest payment will be made on the next succeeding Business Day and no additional interest will accrue as a result of such delayed payment). The initial interest period will be the period from and including November 7, 2019, to, but excluding, December 30, 2019, and the subsequent interest periods will be the periods from and including an Interest Payment Date to, but excluding, the next Interest Payment Date or the Stated Maturity, as the case may be; the interest so payable, and punctually paid or duly provided for, on any Interest Payment Date, will be paid to the Person in whose name the Note (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be March 15, June 15, September 15, or December 15 (whether or not a Business Day), as the case may be, immediately preceding such Interest Payment Date. Payment of principal of (and premium, if any, on) and any such interest on the Notes will be made at the office of the Trustee located at 111 Fillmore Avenue, St. Paul, MN 55107, Attention: Sachem Capital Corp. (6.875% Notes Due December 30, 2024) (Karen R. Beard, Vice President) or at such other address as designated by the Trustee, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; *provided, however*, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register; *provided, further, however*, that so long as the Notes are registered to Cede & Co., such payment will be made by wire transfer in accordance with the procedures established by The Depository Trust Company and the Trustee. Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months.

(e) The Notes shall be initially issuable in global form (each such Note, a “Global Note”). The Global Notes and the Trustee’s certificate of authentication thereon shall be substantially in the form of Exhibit A to this Second Supplemental Indenture. Each Global Note shall represent the outstanding Notes as shall be specified therein and each shall provide that it shall represent the aggregate amount of outstanding Notes from time to time endorsed thereon and that the aggregate amount of outstanding Notes represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges and redemptions. Any endorsement of a Global Note to reflect the amount of any increase or decrease in the amount of outstanding Notes represented thereby shall be made by the Trustee or the Security Registrar, in accordance with Sections 203 and 305 of the Base Indenture.

(f) The depository for such Global Notes (the “Depository”) shall be The Depository Trust Company, New York, New York. The Security Registrar with respect to the Global Notes shall be the Trustee.

(g) The Notes shall be defeasible pursuant to Section 1402 or Section 1403 of the Base Indenture. Covenant defeasance contained in Section 1403 of the Base Indenture shall apply to the covenants contained in Sections 1006, 1008 and 1009 of the Indenture.

(h) The Notes shall be redeemable pursuant to Section 1101 of the Base Indenture and as follows:

(i) The Notes will be redeemable in whole or in part at any time or from time to time, at the option of the Company, on or after November 7, 2021, at a redemption price equal to 100% of the outstanding principal amount thereof, plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to, but excluding, the date fixed for redemption.

(ii) Notice of redemption shall be given in writing and mailed, first-class postage prepaid or by overnight courier guaranteeing next-day delivery, to each Holder of the Notes to be redeemed, not less than thirty (30) nor more than sixty (60) days prior to the Redemption Date, at the Holder's address appearing in the Security Register. All notices of redemption shall contain the information set forth in Section 1104 of the Base Indenture.

(iii) If the Company elects to redeem only a portion of the Notes, the Trustee will determine the method for selecting the particular Notes to be redeemed, in accordance with Section 1103 of the Base Indenture and the Investment Company Act and the rules of any national securities exchange or quotation system on which the Notes are listed, in each case to the extent applicable.

(iv) Unless the Company defaults in payment of the Redemption Price, on and after the Redemption Date, interest will cease to accrue on the Notes called for redemption.

- (i) The Notes shall not be subject to any sinking fund pursuant to Section 1201 of the Base Indenture.
- (j) The Notes shall be issuable in denominations of \$25 and integral multiples of \$25 in excess thereof.
- (k) Holders of the Notes will not have the option to have the Notes repaid prior to the Stated Maturity.
- (l) The Notes are hereby designated as "Senior Securities" under the Indenture.

## ARTICLE II.

### COVENANTS

**Section 2.01.** Except as may be provided in a Future Supplemental Indenture, for the benefit of the Holders of the Notes but no other series of Securities under the Indenture, whether now or hereafter issued and Outstanding, Article Ten of the Base Indenture shall be amended by adding the following new Sections 1009, and 1010 thereto, each as set forth below:

"Section 1009. Asset Coverage Ratio.

The Company hereby agrees that for the period of time during which Notes are Outstanding, the Company will not pay any dividends or make any distributions in excess of 90% of its taxable income, incur any Indebtedness or purchase any shares of its outstanding capital stock, unless, in every such case, at the time of the incurrence of such Indebtedness or at the time of any such dividend, distribution or purchase, the Company has an Asset Coverage of at least 150% after giving effect to the incurrence of such Indebtedness and the application of the net proceeds therefrom or after deducting the amount of such purchase, price as the case may be. "Asset Coverage" means the ratio (expressed as a percentage) which the total assets of the Company bears to the aggregate amount of indebtedness (including the aggregate principal amount of the involuntary liquidation preference of redeemable preferred stock, if any), of the Company. For purposes of the Supplemental Indenture, "Indebtedness" means, without duplication: (a) all indebtedness for borrowed money; (b) all obligations evidenced by notes, bonds, debentures or similar instruments; and (c) any lease of, or other arrangement conveying the right to use, any property by a Person as lessee that has been or should be accounted for as a capital lease on a balance sheet of such Person prepared in accordance with GAAP.

“Section 1010. Commission Reports and Reports to Holders

If, at any time, the Company is not subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act to file any periodic reports with the Commission, the Company agrees to furnish to the Holders of Notes and the Trustee for the period of time during which the Notes are Outstanding: (i) within 90 days after the end of the each fiscal year of the Company (which fiscal year ends on December 31), audited annual consolidated financial statements of the Company and (ii) within 45 days after the end of each fiscal quarter of the Company (other than the Company’s fourth fiscal quarter), unaudited interim consolidated financial statements of the Company. All such financial statements shall be prepared, in all material respects, in accordance with GAAP.”

**ARTICLE III.**

**MEETINGS OF HOLDERS OF SECURITIES**

**Section 3.01.** Except as may be provided in a Future Supplemental Indenture, for the benefit of the Holders of the Notes but no other series of Securities under the Indenture, whether now or hereafter issued and Outstanding, Section 1505 of the Base Indenture shall be amended by replacing clause (c) thereof with the following:

“(c) At any meeting of Holders, each Holder of a Security of such series or proxy shall be entitled to one vote for each \$25.00 principal amount of the Outstanding Securities of such series held or represented by such Holder; provided, however, that no vote shall be cast or counted at any meeting in respect of any Security challenged as not Outstanding and ruled by the chairman of the meeting to be not Outstanding. The chairman of the meeting shall have no right to vote, except as a Holder of a Security of such series or proxy.”

**ARTICLE IV.**

**MISCELLANEOUS**

**Section 4.01.** This Second Supplemental Indenture and the Notes shall be governed by and construed in accordance with the law of the State of New York, without regard to principles of conflicts of laws. This Second Supplemental Indenture is subject to the provisions of the Trust Indenture Act that are required to be part of the Indenture and shall, to the extent applicable, be governed by such provisions.

**Section 4.02.** In case any provision in this Second Supplemental Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

**Section 4.03.** This Second Supplemental Indenture may be executed in counterparts, each of which will be an original, but such counterparts will together constitute but one and the same Second Supplemental Indenture. The exchange of copies of this Second Supplemental Indenture and of signature pages by facsimile, .pdf transmission, email or other electronic means shall constitute effective execution and delivery of this Second Supplemental Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile, .pdf transmission, email or other electronic means shall be deemed to be their original signatures for all purposes.

**Section 4.04.** The Base Indenture, as supplemented and amended by this Second Supplemental Indenture, is in all respects ratified and confirmed, and the Base Indenture and this Second Supplemental Indenture shall be read, taken and construed as one and the same instrument with respect to the Notes. All provisions included in this Second Supplemental Indenture supersede any conflicting provisions included in the Base Indenture with respect to the Notes, unless not permitted by law. The Trustee accepts the trusts created by the Base Indenture, as supplemented by this Second Supplemental Indenture, and agrees to perform the same upon the terms and conditions of the Base Indenture, as supplemented by this Second Supplemental Indenture.

**Section 4.05.** The provisions of this Second Supplemental Indenture shall become effective as of the date hereof.

**Section 4.06.** Notwithstanding anything else to the contrary herein, the terms and provisions of this Second Supplemental Indenture shall apply only to the Notes and shall not apply to any other series of Securities under the Base Indenture and this Second Supplemental Indenture shall not and does not otherwise affect, modify, alter, supplement or change the terms and provisions of any other series of Securities under the Base Indenture, whether now or hereafter issued and Outstanding.

**Section 4.07.** The recitals contained herein and in the Notes shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Second Supplemental Indenture, the Notes or any Additional Notes, except that the Trustee represents that it is duly authorized to execute and deliver this Second Supplemental Indenture, authenticate the Notes and any Additional Notes and perform its obligations hereunder. The Trustee shall not be accountable for the use or application by the Company of the Notes or any Additional Notes or the proceeds thereof.

*[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]*

IN WITNESS WHEREOF, the parties hereto have caused this Second Supplemental Indenture to be duly executed as of the date first above written.

SACHEM CAPITAL CORP.

By: /s/ John L. Villano  
Name: John L. Villano  
Title: Co-Chief Executive Officer

U.S. BANK NATIONAL  
ASSOCIATION, as Trustee

By: /s/ Karen R. Beard  
Name: Karen R. Beard  
Title: Vice President

*[Signature page to Second Supplemental Indenture]*

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**Exhibit A – Form of Global Note**

This Security is a Global Security within the meaning of the Indenture hereinafter referred to and is registered in the name of The Depository Trust Company or a nominee thereof. This Security may not be exchanged in whole or in part for a Security registered, and no transfer of this Security in whole or in part may be registered, in the name of any Person other than The Depository Trust Company or a nominee thereof, except in the limited circumstances described in the Indenture.

Unless this certificate is presented by an authorized representative of The Depository Trust Company to the issuer or its agent for registration of transfer, exchange or payment and such certificate issued in exchange for this certificate is registered in the name of Cede & Co., or such other name as requested by an authorized representative of The Depository Trust Company, any transfer, pledge or other use hereof for value or otherwise by or to any person is wrongful, as the registered owner hereof, Cede & Co., has an interest herein.

**Sachem Capital Corp.**

No.

\$  
CUSIP No.: 78590A 307  
ISIN: US78590A3077

6.875% Notes due December 30, 2024

Sachem Capital Corp., a corporation duly organized and existing under the laws of New York (herein called the “Company”, which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of THIRTY MILLION AND 00/100 Dollars (U.S. \$30,000,000.00) on December 30, 2024 and to pay interest thereon from November 7, 2019 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, quarterly on March 30, June 30, September 30 and December 30 in each year, commencing December 30, 2019, at the rate of 6.875% per annum, until the principal hereof is paid or made available for payment. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security is registered at the close of business on the Regular Record Date for such interest, which shall be March 15, June 15, September 15, or December 15 (whether or not a Business Day), as the case may be, immediately preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture. This Security may be issued as part of a series.

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Payment of the principal of (and premium, if any, on) and any such interest on this Security will be made at the office of the Trustee located at 111 Fillmore Avenue, St. Paul, MN55107, Attention: Sachem Capital Corp. (6.875% Notes Due December 30, 2024) or at such other address as designated by the Trustee, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; *provided, however*, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register; *provided, further, however*, that so long as this Security is registered to Cede & Co., such payment will be made by wire transfer in accordance with the procedures established by The Depository Trust Company and the Trustee.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

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IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Dated:

SACHEM CAPITAL CORP.

By:

\_\_\_\_\_  
Name:  
Title:

Attest

By:

\_\_\_\_\_  
Name:  
Title:

*[Global Note - Second Supplemental Indenture]*

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**CERTIFICATE OF AUTHENTICATION**

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Dated:

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: \_\_\_\_\_  
Authorized Signatory

*[Global Note - Second Supplemental Indenture]*

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**Sachem Capital Corp.**

6.875% Notes due December 30, 2024

This Security is one of a duly authorized issue of Senior Securities of the Company (herein called the “Securities”), issued and to be issued in one or more series under an Indenture, dated as of June 21, 2019 (herein called the “Base Indenture”, which term shall have the meaning assigned to it in such instrument), between the Company and U.S. Bank National Association, as Trustee (herein called the “Trustee”, which term includes any successor trustee under the Base Indenture), and reference is hereby made to the Base Indenture for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee, and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered, as supplemented by the Second Supplemental Indenture, dated as of November 7, 2019, by and between the Company and the Trustee (herein called the “Second Supplemental Indenture”; the Second Supplemental Indenture and the Base Indenture collectively are herein called the “Indenture”). In the event of any conflict between the Base Indenture and the Second Supplemental Indenture, the Second Supplemental Indenture shall govern and control.

This Security is one of the series designated on the face hereof, which series is initially limited in aggregate principal amount to \$30,000,000.00. Under a Board Resolution, Officers’ Certificate pursuant to Board Resolutions or an indenture supplement, the Company may from time to time, without the consent of the Holders of Securities, issue additional Securities of this series (in any such case “Additional Securities”) having the same ranking and the same interest rate, maturity and other terms as the Securities. Any Additional Securities and the existing Securities will constitute a single series under the Indenture and all references to the relevant Securities herein shall include the Additional Securities unless the context otherwise requires. The aggregate amount of outstanding Securities represented hereby may from time to time be reduced or increased, as appropriate, to reflect exchanges and redemptions.

The Securities of this series are subject to redemption in whole or in part at any time or from time to time, at the option of the Company, on or after November 7, 2021, at a redemption price per security equal to 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to, but excluding, the date fixed for redemption.

Notice of redemption shall be given in writing and mailed, first-class postage prepaid or by overnight courier guaranteeing next-day delivery, to each Holder of the Securities to be redeemed, not less than thirty (30) nor more than sixty (60) days prior to the Redemption Date, at the Holder’s address appearing in the Security Register. All notices of redemption shall contain the information set forth in Section 1104 of the Base Indenture.

If the Company elects to redeem only a portion of the Securities, the Trustee will determine the method for selecting the particular Securities to be redeemed, in accordance with Section 1.01 of the Second Supplemental Indenture and Section 1103 of the Base Indenture. In the event of redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

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Unless the Company defaults in payment of the Redemption Price, on and after the Redemption Date, interest will cease to accrue on the Securities called for redemption.

Holders of Securities do not have the option to have the Securities repaid prior to December 30, 2024.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security or certain restrictive covenants and Events of Default with respect to this Security, in each case upon compliance with certain conditions set forth in the Indenture.

If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of not less than a majority in principal amount of the Securities at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 25% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee indemnity, security, or both satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for sixty (60) days after receipt of such notice, request and offer of indemnity and/or security. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

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No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of \$25 and any integral multiples of \$25 in excess thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company, the Trustee, or the Security Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee, or the Security Registrar and any agent of the Company, the Trustee, or the Security Registrar may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and none of the Company, the Trustee, the Security Registrar or any agent thereof shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

The Indenture and this Security shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws.

To the extent any provision of this Security conflicts with the express provisions of the Indenture, the provisions of the Indenture shall govern and be controlling.

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**SACHEM CAPITAL CORP.**

698 Main Street  
Branford, CT 06405

**FORM OF  
RESTRICTED STOCK GRANT AGREEMENT**

October 4, 2019

[NAME AND ADDRESS]

Dear \_\_\_\_\_:

Sachem Capital Corp., a New York corporation (the "Company"), hereby awards to you under its 2016 Equity Compensation Plan (the "Plan") 2,500 common shares (the "Restricted Shares"), \$0.001 par value per share, of the Company (the "Common Shares") pursuant to the terms and conditions of this Agreement. The Company represents that the Restricted Shares are fully paid and non-assessable. The Restricted Shares are subject to the vesting provisions set forth herein and certain other restrictions as provided for herein. Capitalized terms used herein and not defined herein shall have the meaning ascribed thereto in the Plan.

You are entitled to all the rights and privileges of a holder of the Shares (including the right to receive and retain all dividends declared thereon). As used herein, the term "Restricted Shares" shall mean and include, in addition to the above referenced number of Restricted Shares, (i) any Common Shares issued and distributed as a dividend on the restricted Shares and (ii) any other securities of the Company, including shares of its capital stock, debt securities or other securities convertible into or exchangeable for equity securities of the Company, issued in connection with any merger or reorganization or recapitalization of the Company, or the reclassification of the Common Shares.

By accepting the Restricted Shares, you agree as follows:

1. The vesting of the Restricted Shares shall be as follows:
  - (i) 625 Restricted Shares shall vest immediately on the date hereof;
  - (ii) 625 Restricted Shares shall vest on October 4, 2020;
  - (iii) 625 Restricted Shares shall vest on October 4, 2021; and
  - (iv) 625 Restricted Shares shall vest on October 4, 2022.

Each of the foregoing dates is referred to herein as a "Vesting Date".

2. No Restricted Shares may be sold, conveyed, transferred, pledged, encumbered or otherwise disposed of (any such disposition being herein called a "Transfer") prior to the date on which such Restricted Shares shall have vested as provided in Section 1 above, except that this Transfer restriction shall lapse, and full vesting shall be accelerated with respect to all non-vested Restricted Shares that have not been previously transferred to the Company upon: (i) your death; (ii) your being unable to carry out your duties and responsibilities as a member of the Board for an indefinite period as a direct result of any physical incapacity or mental illness as attested to by an independent licensed physician acceptable to the Company; (iii) your resignation as a member of the Company's Board of Directors (the "Board") in connection with a Change in Control, provided that such resignation is condition of the consummation of the transaction constituting a Change in Control; or (iv) your removal as a member of the Board within one hundred eighty (180) days of a Change in Control.
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3. If at any time following the date hereof you cease to be a member of the Board for reasons other than those specifically set forth in Section 2 above, then the balance of the unvested Restricted Shares shall be immediately forfeited to the Company (an “Event of Forfeiture”). Immediately upon an Event of Forfeiture, such Restricted Shares shall be deemed to have been transferred to the Company and you shall have no further rights or privileges as a holder of the Restricted Shares so transferred.

4. You acknowledge and agree that the book-entry evidencing your ownership of the Restricted Shares shall bear the following legend(s):

THESE SHARES MAY NOT BE SOLD, TRANSFERRED, HYPOTHECATED OR ASSIGNED EXCEPT IN COMPLIANCE WITH THE REQUIREMENTS OF RULE 144 PROMULGATED UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

THE TRANSFERABILITY OF THESE SHARES ARE SUBJECT TO THE RESTRICTIONS, TERMS AND CONDITIONS (INCLUDING FORFEITURE PROVISIONS AND RESTRICTIONS AGAINST TRANSFER) CONTAINED IN THE ISSUER’S 2016 EQUITY COMPENSATION PLAN AND AN AGREEMENT ENTERED INTO BETWEEN THE REGISTERED OWNER OF THESE SHARES AND THE ISSUER. A COPY OF THE SUCH PLAN AND AGREEMENT IS ON FILE WITH THE SECRETARY OF THE ISSUER.

5. You will be required to satisfy any potential federal, state, local or other tax withholding liability with respect to the issuance and/or vesting of the Restricted Shares, depending upon whether you have made a proper and timely election under Section 83(b) of the Internal Revenue Code (referred to herein as the “Section 83(b) Election.”) Unless you have previously made a proper and timely Section 83(b) Election, such liability must be satisfied at the time the Restricted Shares become “substantially vested” (as defined in the regulations issued under Section 83 of the Internal Revenue Code), which would likely be when the restrictions on the Restricted Shares lapse. At such time, you will be required to report the total value of the Restricted Shares as of the date the Restricted Shares become substantially vested as ordinary income. This could result in a significant income tax burden to you if the market value of the Restricted Shares increases from the date of this Agreement through such time as the Restricted Shares become substantially vested. If you make the Section 83(b) Election, the value of the Restricted Shares will be treated as ordinary income on the date of grant and the tax withholding liability must be satisfied at that time. Any gain or loss from the sale or forfeiture of the Restricted Shares for which the Section 83(b) Election has been made will be capital gain or loss. The holding period for determining whether the gain or loss is long-term or short-term will be measured from the date hereof. Please note, that the market value of the Restricted Shares that vest on the date hereof will be included in your taxable income for 2018 regardless of whether you make the Section 83(b) Election. **THE FOREGOING IS NOT INTENDED TO CONSTITUTE TAX ADVICE NOR IS IT NECESSARILY COMPREHENSIVE IN LIGHT OF YOUR PERSONAL TAX SITUATION. ACCORDINGLY, YOU SHOULD CONSULT YOUR TAX ADVISOR GENERALLY WITH RESPECT TO THE TAX IMPLICATIONS OF THIS AWARD.**

Unless we approve other arrangements, you must deliver to us either a check or money order in the amount of the required withholding amount on each Vesting Date upon notice from the Company. If, within ten (10) days following such notice of the Vesting Date, you fail to deliver the amount of the required withholding to the Company, the Company shall have the right to take any and all action it deems reasonable or appropriate to collect the required withholding amount, including, but not limited to, offsetting such amount against any cash compensation, fees or expense reimbursement due from the Company to you and/or selling all or a portion of the Restricted Shares on your behalf.

6. To facilitate compliance with the transactions described herein, until the Restricted Shares are fully vested pursuant to the terms and conditions of this Agreement, the Company will hold a stock power for the Restricted Shares in the form annexed hereto, duly endorsed by you, in blank, and notarized (the "Stock Power"). A form of the Stock Power is attached as Exhibit A hereto. Simultaneously with the delivery of this Agreement you shall deliver a fully completed Stock Power to the Company, which will be returned to you within a reasonable amount of time after full vesting of the Restricted Shares.

7. This Agreement shall be binding upon and inure to the benefit of you and the Company and your and its respective successors and legal representatives.

8. Nothing contained in this Agreement shall confer upon you the right to continue to serve as a member of the Board.

Very truly yours,

**Sachem Capital Corp.**

By: \_\_\_\_\_  
**John L. Villano,**  
**Co-Chief Executive Officer**

**Acceptance:**

I hereby accept the Shares and agree to all the terms and conditions set forth herein.

\_\_\_\_\_  
[NAME]

## **EXHIBIT A**

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# IRREVOCABLE STOCK POWER

FOR VALUE RECEIVED, the undersigned, \_\_\_\_\_, does hereby sell, assign, and transfer to:

**SACHEM CAPITAL CORP.**  
(EIN: 81-3467779)

\_\_\_\_ common shares, par value \$0.001 per share, of **SACHEM CAPITAL CORP.** represented by book entries, standing in the name of the undersigned on the books of said company.

The undersigned does hereby irrevocably constitute and appoint Computershare as attorney to transfer the said stock(s), as the case may be, on the books of said company, with full power of substitution in the premises.

Dated: October \_\_, 2019

[NAME]

\_\_\_\_\_  
Signature of Current Holder or Legal Representatives

\_\_\_\_\_  
Signature of Joint Owner(s)

**IMPORTANT:** The signature(s) to this Stock Power must correspond exactly with the name(s) as shown upon the face of the stock certificate(s) or a Computershare-issued statement for book-entry shares, without alteration or enlargement or any change whatever. This Stock power must be signed by all current registered holders, or a legally authorized representative with indication of his or her capacity next to the signature.

Sworn to before me on  
the \_\_ day of October 2019

\_\_\_\_\_  
Notary Public

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**Rule 13a-14(a)/15d-14(a) Certification**

I, Jeffrey C. Villano, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sachem Capital Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on the most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2019

/s/ Jeffrey C. Villano

Jeffrey C. Villano  
Co-Chief Executive Officer and President  
(Principal Executive Officer)

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**Rule 13a-14(a)/15d-14(a) Certification**

I, John L. Villano, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sachem Capital Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on the most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2019

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/s/ John L. Villano  
John L. Villano, CPA  
Co-Chief Executive Officer and Chief Financial Officer  
(Principal Financial Officer)

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Sachem Capital Corp. (the "Company") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey C. Villano, Co-Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company

Dated: November 13, 2019

/s/ Jeffrey C. Villano

Jeffrey C. Villano  
Co-Chief Executive Officer and President  
(Principal Executive Officer)

A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Sachem Capital Corp. (the "Company") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John L. Villano, Co-Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company

Dated: November 13, 2019

/s/ John L. Villano

John L. Villano, CPA  
Co-Chief Executive Officer and Chief Financial Officer  
(Principal Financial Officer)

A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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