

Mentor Capital, Inc. and Subsidiaries

Financial Statements

December 31, 2013 and 2012

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Report of Independent Registered Public Accounting Firm

To: The Board of Directors and Shareholders of
Mentor Capital Inc.

We have audited the accompanying balance sheets of Mentor Capital, Inc. (the "Company") as of December 31, 2013 and 2012, and the related statements of operations, shareholders' deficit and cash flows for each of the years ended December 31, 2013 and 2012. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012, and the results of its operations loss, shareholders' deficit, and its cash flows for each of the years ended December 31, 2013 and 2012 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and has a significant accumulated deficit. In addition, the Company continues to experience negative cash flows from operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Albert Wong & Co., LLP.
Certified Public Accountants
New York, New York
November 17, 2014

Mentor Capital, Inc.

Balance Sheets

December 31, 2013 and 2012

	2013	2012
	(Audited)	(Audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 40,184	\$ 15,257
Prepaid expenses and other current assets	342,408	474,371
Investments in securities (at fair value)	21,320	-
	<u>403,912</u>	<u>489,628</u>
Total current assets		
	<u>403,912</u>	<u>489,628</u>
 Property and equipment		
Property and equipment	31,032	28,600
Accumulated depreciation	(26,732)	(24,501)
	<u>4,300</u>	<u>4,099</u>
Property and equipment, net		
	<u>4,300</u>	<u>4,099</u>
 Other assets		
Note receivable	1,080,000	1,080,000
Shareholder loans receivable	136,000	-
Long term investments	65,943	9,733,067
	<u>1,281,943</u>	<u>10,813,067</u>
Total other assets		
	<u>1,281,943</u>	<u>10,813,067</u>
 Total assets		
	<u>\$ 1,690,155</u>	<u>\$ 11,306,794</u>

Mentor Capital, Inc.

Balance Sheets (Continued)

December 31, 2013 and 2012

	2013 (Audited)	2012 (Audited)
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities		
Accounts payable	\$ 20,892	\$ 20,000
Accrued expenses	6,474	15,647
Deferred fees - related party, current portion	32,000	32,000
Income taxes payable	-	51,265
	<u>59,366</u>	<u>118,912</u>
Total current liabilities		
	<u>59,366</u>	<u>118,912</u>
Long-term liabilities		
Accrued salary and benefits - related party	900,238	755,107
Deferred fees - related party, net of current portion	593,333	625,333
Investments payable	-	9,670,000
Accrued retirement and other benefits - related party	431,087	422,421
	<u>1,924,658</u>	<u>11,472,861</u>
Total long-term liabilities		
	<u>1,924,658</u>	<u>11,472,861</u>
Shareholders' deficit		
Preferred stock, no par value, 100,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, no par value, 400,000,000 shares authorized; 6,702,822, and 4,163,340 shares issued and outstanding at December 31, 2013 and 2012	2,389,801	2,139,907
Additional paid in capital	495,509	495,509
Accumulated deficit	(3,179,179)	(2,920,395)
	<u>(293,869)</u>	<u>(284,979)</u>
Total shareholders' deficit		
	<u>(293,869)</u>	<u>(284,979)</u>
Total liabilities and shareholders' deficit	<u>\$ 1,690,155</u>	<u>\$ 11,306,794</u>

Mentor Capital, Inc.

Statements of Operation

For The Years Ended December 31, 2013 and 2012

	2013 (Audited)	2012 (Audited)
Revenue		
Service fees	\$ 32,000	\$ 32,000
Cost of sales	-	-
Gross profit	32,000	32,000
Selling, general and administrative expenses	292,899	294,734
Operating income (loss)	(260,899)	(262,734)
Other income and (expense)		
Interest income (expense)	2,745	5,349
Gain on investments	170	20,174
Other income (expense)	-	2,000
Total other income and (expense)	2,915	27,523
Income (loss) before provision for income taxes	(257,984)	(235,211)
Provision for income taxes	800	1,500
Net income (loss)	\$ (258,784)	\$ (236,711)
Basic and diluted net loss per common share:		
Basic	\$ (0.045)	\$ (0.071)
Diluted*	\$ N/A	\$ N/A
Weighted average number of shares of common stock outstanding:		
Basic	5,741,161	3,326,285
Diluted*	N/A	N/A

*The company recorded operating loss and so the diluted EPS will not be calculated for the diluted EPS effect is anti-dilutive.

Mentor Capital, Inc. Statements of Changes in Shareholders' Deficit
For The Years Ended December 31, 2013 and 2012

	Common stock		Additional	Accumulated	
	Shares	no par	paid in	deficit	Totals
			capital		
Balance at December 31, 2011	2,503,549	\$ 1,867,754	\$ 495,509	\$ (2,683,684)	\$ (320,421)
Conversion of warrants to common stock, net of conversion costs	1,651,156	275,540	-	-	275,540
Shares retired	(5,684)	(3,387)	-	-	(3,387)
Net income (loss)	-	-	-	(236,711)	(236,711)
Balance at December 31, 2012	4,149,021	2,139,907	495,509	(2,920,395)	(284,979)
Conversion of warrants to common stock, net of conversion costs	2,619,332	278,228	-	-	278,228
Shares retired	(79,850)	(28,334)	-	-	(28,334)
Net income (loss)	-	-	-	(258,784)	(258,784)
Balance at December 31, 2013	<u>6,688,503</u>	<u>\$ 2,389,801</u>	<u>\$ 495,509</u>	<u>\$ (3,179,179)</u>	<u>\$ (293,869)</u>

Mentor Capital, Inc.

Statements of Cash Flows

For The Years Ended December 31, 2013 and 2012

	2013 (Audited)	2012 (Audited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (258,784)	\$ (236,711)
Adjustments to reconcile net loss to net cash provided by (used by) operating activities:		
Depreciation and amortization	2,231	3,842
Investment (gain) loss	280	(5,772)
Loss on sale/disposal of furniture and equipment	-	2,495
Decrease (increase) in operating assets		
Prepaid warranty liability	131,963	(92,004)
Increase (decrease) in operating liabilities		
Accounts payable	892	15,225
Accrued expenses	(9,173)	1,881
Deferred fees	(32,000)	(32,000)
Income tax payable	(51,265)	(1,209)
Accrued salary and benefits - related party	145,131	120,477
Accrued retirement and benefits - related party	8,666	8,667
Net cash provided by (used by) operating activities	(62,059)	(215,109)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,432)	(1,977)
Investment in securities	(20,923)	-
Purchase of long term investments	(3,553)	(40,567)
Shareholder loans	(136,000)	-
Net cash provided by (used by) investing activities	(162,908)	(42,544)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Shares retired	(28,334)	(3,387)
Warrants converted to common stock, net of costs	278,228	275,540
Net cash provided by (used by) financing activities	249,894	272,153
Net change in cash	24,927	14,500
Beginning cash	15,257	757
Ending cash	\$ 40,184	\$ 15,257

Mentor Capital, Inc.

Statements of Cash Flows (Continued)

For The Years Ended December 31, 2013 and 2012

	2013 (Audited)	2012 (Audited)
SUPPLEMENTARY INFORMATION:		
Cash paid for interest	\$ 1,852	\$ 4,187
Cash paid for income taxes	\$ 52,065	\$ 2,709
NON-CASH INVESTING AND FINANCING TRANSACTION:		
Remove 30% investment in AGI via reduction in investment payable	\$ (4,700,000)	\$ -
Remove 48.04% investment in BDH via reduction in investment payable	\$ (4,966,667)	\$ -

Mentor Capital, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 1 - Nature of operations

History (1985 – 2008)

Mentor Capital, Inc. ("Mentor" or "the Company") was founded as an investment partnership by the current CEO in 1985 and incorporated July 29, 1994, under the laws of the State of California. On September 12, 1996, the Company's offering statement was qualified pursuant to Regulation A of the Securities Act, and the Company began to trade its shares publicly. On August 21, 1998, the Company filed voluntary reorganization with the bankruptcy court and, on January 11, 2000, the Company emerged from Chapter 11. The Company contracted to provide financial assistance and investment into small businesses following its reorganization.

Current Business (2008 - 2013)

Since the August 2008, name change back to Mentor Capital, Inc., the Company's common stock has traded publicly under the trading symbol OTC Markets: MNTR.

In 2009, the Company began focusing its investing activities in leading edge cancer companies. In 2012, in response to government limitations on reimbursement for highly technical and expensive cancer treatments and a resulting business decline in the cancer development sector, the Company decided to exit that space. In the summer of 2013 the Company was asked to consider investing in a cancer related project with a medical marijuana focus. On August 27, 2013, the Company made a decision to divest of its cancer assets and focus on becoming a pure play in the cannabis and medical marijuana sector.

On January 1, 2014, Mentor purchased an additional 1% of Waste Consolidators, Inc. (WCI) for \$25,000, see Note 13.

On February 28, 2014, the Company acquired a 60% ownership in Bhang Chocolate Company, Inc. ("Bhang"), see Note 13 for purchase and subsequent lawsuit.

On March 27, 2014, the Company signed an agreement to purchase up to a 51% interest in MicroCannaBiz ("MCB"), a development stage company, see Note 13.

Note 2 - Summary of significant accounting policies

Basis of presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

As shown in the accompanying financial statements, the Company has a significant accumulated deficit of \$3,179,179 as of December 31, 2013. The Company also continues to experience negative cash flows from operations. The Company will be required to raise additional capital to fund its operations, and will continue to attempt to raise capital resources from both related and unrelated parties until such time as the Company is able to generate revenues sufficient to maintain itself as a viable entity. These factors have raised substantial doubt about the Company's ability to continue as a going concern. There can be no assurances that the Company will be able to raise additional capital or achieve profitability. However, the Company has 14.5 million warrants outstanding in which the Company can reset the exercise price substantially below the current market price, see Note 9. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Mentor Capital, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 2 - Summary of significant accounting policies (continued)

Basis of presentation (continued)

From January 1, 2014 through the audit date, the Company raised approximately \$3,821,000 from the exercise of warrants into common stock. The Company estimates it has adequate cash reserves to support one to three years of operation. Management's plans include increasing revenues through acquisition, investment, and organic growth. This is to be funded by raising additional capital through the sale of preferred and common equity securities and debt.

Concentrations of cash

The Company maintains its cash and cash equivalents in bank deposit accounts which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts nor does the Company believe it is exposed to any significant credit risk on cash and cash equivalents.

Cash and cash equivalents

The Company considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents. The Company had no short-term debt securities as of December 31, 2013 and 2012.

Investment in unconsolidated entity

Mentor accounted for the investment in WCI using the equity method based on the ownership interest and the Company's ability to exercise significant influence at December 31, 2013 and 2012. Accordingly, the investment was initially recorded at cost with adjustments to the carrying amount of the investment to recognize our share of the earnings or losses of the investee each reporting period. Mentor ceased to recognize losses when our investment basis was zero. At December 31, 2013 and 2012, the WCI investment was \$0. On January 1, 2014, the Company purchased an additional 1% interest in WCI for a 51% interest, see Note 13.

Long term investments

The Company's investments in entities where it is a minority owner and does not have the ability to exercise significant influence are recorded at fair value if readily determinable. If the fair market value is not readily determinable, the investment is recorded under the cost-method. Under this method, the Company's share of the earnings or losses of such investee company is not included in the Company's financial statements. The Company reviews the carrying value of its long term investments for impairment each reporting period.

Property, equipment and machinery

Property, equipment and machinery are recorded at cost. Depreciation is computed on the straight-line and declining balance methods over the estimated useful lives of various classes of property ranging from 3 to 7 years.

Expenditures for renewals and betterments are capitalized and maintenance and repairs are charged to expense. Upon retirement or sale, the cost of assets disposed and the accumulated depreciation is removed from the accounts. The resulting gain or loss is credited or charged to income.

Mentor Capital, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 2 - Summary of significant accounting policies (continued)

Revenue recognition

The Company recognizes revenue in accordance with ASC 605 "*Revenue Recognition*". The Company records revenue under each contract once persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable and collectability is reasonably assured.

Basic and diluted income (loss) per common share

Basic net income (loss) per common share (EPS) is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS adjusts basic net income (loss) per common share, computed using the treasury stock method, for the effects of potentially dilutive common shares, if the effect is not antidilutive. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock warrants. Diluted EPS excludes all dilutive potential shares if their effect is antidilutive. Outstanding warrants that had no effect on the computation of dilutive weighted average number of shares outstanding as their effect would be antidilutive were approximately 23,220,000 and 25,839,000 as of December 31, 2013 and 2012, respectively. There were 6,650,070 and 9,141,222 potentially dilutive shares outstanding at December 31, 2013 and 2012.

Income taxes

We utilize the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and tax basis of assets and liabilities using enacted tax rates in effect for years in which the temporary differences are expected to reverse. A valuation is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management considers the likelihood of changes by taxing authorities in its filed income tax returns and recognizes a liability for or discloses potential changes that management believes are more likely than not to occur upon examination by tax authorities.

Management has not identified any uncertain tax positions in filed income tax returns that require recognition or disclosure in the accompanying financial statements. The Company's income tax returns for the past three years are subject to examination by tax authorities, and may change upon examination. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense.

Advertising and promotion

The Company expenses advertising and promotion costs as incurred. Advertising and promotion costs were \$553 and \$24,070 for the years ended December 31, 2013 and 2012, respectively.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions the Company may undertake in the future, actual results ultimately may differ from these estimates.

Mentor Capital, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 2 - Summary of significant accounting policies (continued)

Fair value measurements

The Fair Value Measurements and Disclosure Topic defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair value measurements (continued)

The Fair Value Measurements and Disclosure Topic establish a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. These three general valuation techniques that may be used to measure fair value are as follows: Market approach (Level 1) – which uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources. Cost approach (Level 2) – which is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and the Income approach (Level 3) – which uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (including present value techniques, and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

The carrying amounts of cash, accounts receivable, prepaid expenses and other current assets, accounts payable, customer deposits and other accrued liabilities approximate their fair value due to the short-term nature of these instruments.

The fair value of the note receivable is based on the net present value of calculated interest and principle payments. The carrying value approximates fair value as interest rates charged are comparable to market rates for similar notes.

The fair value of long-term notes payable is based on the net present value of calculated interest and principle payments. The carrying value of long-term debt approximates fair value due to the fact that the interest rate on the debt is based on market rates.

Recent Accounting Standards

The Company has implemented all new accounting pronouncements that are in effect. These pronouncements did not have any material impact on the financial statements and the Company does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

Mentor Capital, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 3 – Prepaid expenses and other assets

Prepaid expenses and other assets consist of the following:

	2013	2012
Prepaid advertising costs	\$ 140,610	\$ 72,210
Prepaid legal fees	8,387	-
Prepaid warrant liability	192,411	400,161
Investment receivable	1,000	2,000
	<u>\$ 342,408</u>	<u>\$ 474,371</u>

The prepaid warrant liability relates to the warrant redemption liability described in Note 10.

Note 4 – Note receivable (related party)

At December 31, 2013 and 2012, the note receivable consists of a note for \$1,080,000 from WCI. The note is payable on demand and the other WCI stockholder may utilize any of his remaining Mentor warrants as currency to partially repay the loan at a rate of \$0.45 per warrant. The note accrues interest at 0.42% per annum with annual interest only payments due. For the years ended December 31, 2013 and 2012, the Company recorded interest income of \$4,536 from the associated company. The note originated on September 13, 2011 as payment for past amounts owed of \$380,000 and for future administrative fees that will become due over time under a Liquidity Agreement between the Company and the associated company. At December 31, 2013 and 2012, deferred fees relating to the note were \$625,333 and \$657,333, see Note 8.

Note 5 – Shareholder loan receivable

The shareholder loan receivable of \$136,000 at December 31, 2013 is receivable from the Company's Chief Executive Officer ("CEO"). The loan amount is approximately ten percent of amounts due the CEO at December 31, 2013 for accrued salary and accrued retirement, as described in Note 14, therefore, no interest is being accrued on the amounts due the CEO and no interest is charged on the loan receivable. The loan is payable on demand and may be offset against the accrued amounts due the CEO.

Mentor Capital, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 6 - Property and equipment

Property and equipment is comprised of the following at December 31, 2013 and 2012:

	2013	2012
Computers	\$ 12,120	\$ 9,688
Furniture and fixtures	18,912	18,912
Machinery and vehicles	-	-
	<u>31,032</u>	<u>28,600</u>
Accumulated depreciation	<u>(26,732)</u>	<u>(24,501)</u>
Net Property and equipment	<u>\$ 4,300</u>	<u>\$ 4,099</u>

Depreciation expense was \$2,230 and \$3,842 for the years ended December 31, 2013 and 2012, respectively.

Note 7 – Long term investments and fair value

The Company's financial assets contained investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in Level 1 of the hierarchy. The Company receives the quoted market prices from a third party, nationally recognized pricing service ("pricing service"). When quoted market prices are unavailable, the Company utilizes a pricing service to determine a single estimate of fair value, which is mainly for its fixed maturity investments. The fair value estimates provided from this pricing service are included in the amount disclosed in Level 2 of the hierarchy. The Company bases all of its estimates of fair value for assets on the bid price as it represents what a third party market participant would be willing to pay in an arm's length transaction.

The Company entered into a long-term equity funding agreement with AGI Biopharmaceutical (AGI) on November 25, 2011 to provide \$4,700,000 in long term funding for up to 3,000,000 AGI shares of AGI common shares at \$1.57 per common share, or 30% of AGI shares outstanding. The purchase price was to be paid from cash generated from the sale of Mentor warrants on a *pro rata* basis to AGI and other cancer companies where Mentor had taken an equity position under similar terms. At December 31, 2012 the long term investment in AGI was \$4,700,000 and the corresponding investment payable was \$4,700,000. AGI failed to provide shares for the escrow agent and on February 13, 2013, the Company gave notice to AGI that the agreement was being terminated based on non-performance.

The Company entered into a long-term equity funding agreement with Brighter Day Health ("BDH") on December 31, 2011, to provide \$5,000,000 in long term funding for up to 50,000 shares of BDH common stock at \$100 per common share, or 50% of BDH common shares outstanding. The BDH common shares were delivered to an escrow agent. The purchase price was to be paid from cash generated from the sale of Mentor warrants on a *pro rata* basis to BDH and other cancer companies where Mentor had taken an equity position under similar terms. At December 31, 2012, the long term investment in BDH was \$5,022,610, representing the long-term investment of \$5,000,000 plus the increase in fair value of amounts already invested of \$22,500. The investment payable at 2012 was \$4,966,667. In May 2013, the Company instructed the escrow agent to process the release of BDH shares from escrow and gave notice to BDH as provided under the agreement. In accordance with the funding agreement, Mentor received 1,000 shares of BDH common stock and the remaining stock was returned to BDH.

Mentor Capital, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 7 – Long term investments and fair value (continued)

The hierarchy of Level 1, Level 2 and Level 3 Assets are listed as following:

	Fair Value Measurements Using Unadjusted Quoted Market Prices (Level 1) Equity Securities	Fair Value Measurements Using Quoted Prices for Identical or Similar Assets in Active Markets (Level 2)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Long-Term Equity Funding Agreements
Balance at December 31, 2011	\$ 16,728	\$ -	\$ 9,700,000
Total gains or losses			
Included in earnings (or changes in net assets)	(1)	-	22,500
Purchases, issuances, sales, and settlements			
Purchases	10,000	-	-
Issuances	-	-	-
Sales	(16,160)	-	-
Settlements	-	-	-
Balance at December 31, 2012	\$ 10,567	\$ -	\$ 9,722,500
Transfers to investments in securities (at fair value)	(567)	-	
Total gains or losses			
Included in earnings (or changes in net assets)	-	-	110
Purchases, issuances, sales, and settlements			
Purchases	-	-	-
Issuances	-	-	-
Sales	-	-	-
Settlements	-	-	(9,666,667)
	\$ 10,000	\$ -	\$ 55,943

Mentor Capital, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 8 – Deferred fees (related party)

The deferred fees represent deferred administrative fees relating to the note receivable (related party) described in Note 4. The deferred balances at December 31, 2013 and 2012 were:

	2013	2012
Deferred fees	\$ 625,333	\$ 657,333
Less: Current portion	32,000	32,000
Non-current portion	\$ 593,333	\$ 625,333

Note 9 - Common stock warrants

The Company's Plan of Reorganization provided for the creditors and claimants to receive new warrants in settlement of their claims. The term of the warrants, initially sixteen months, has been extended by the Company until May 11, 2038. Management believes that identification of a specific expiration date was merely a formality and that this was not a material change from the automatic extensions which were initially provided for by vote of the board of directors and which were being performed annually since issuance, and also because the shareholders and warrant holders are primarily the same. The Company recorded no accounting impact as a result of the extension.

Each warrant is callable by the Company if the share price exceeds the exercise price by the lesser of \$1 or 100%. The warrant holders have 30 to 90 calendar days during which to exercise their warrants once they are called. The Company may lower the exercise price of the warrants at any time. Similarly, the Company could, but does not anticipate, reverse splitting the stock to raise the stock price above the warrant exercise price. The warrants are specifically not affected and do not split with the shares in the event of a reverse split. If the warrants are not exercised, the Company has the right to designate the warrants to a new holder in return for a \$0.10 per share redemption fee payable to the original warrant holder as discussed further in Note 7. All such changes in the exercise price of series A, B, C and D warrants were provided for by the court in the Plan of Reorganization in order to provide a mechanism for debtors to receive value. Therefore, Management believes that the act of lowering the exercise price is

not a change from the original warrant grants and the Company has not recorded an accounting impact as the result of such change in exercise prices.

Exercise prices at December 31, 2011 and subsequent lower prices for the A, B, C and D warrants are as follow:

	Series A	Series B	Series C	Series D
December 31, 2011	\$ 1.00	\$ 3.00	\$ 0.65	\$ 7.00
March 21, 2012	\$ 0.09	\$ 3.00	\$ 0.65	\$ 7.00
August 21, 2012	\$ 0.09	\$ 0.11	\$ 0.65	\$ 7.00
April 1, 2013	\$ 0.01	\$ 0.11	\$ 0.09	\$ 7.00

At November 8, 2009, the Company entered into an Investment Banking agreement with Network One Securities, LLC and a related Strategic Advisory Agreement with Lenox Hill Partners, LP with regard to a potential merger with a cancer development company. In conjunction with those related agreements, the Company issued 81,699 Series E (\$1) Warrants, 369,037 Series F (\$3) Warrants, 85,579 Series G (\$0.65) Warrants and 689,159 Series H (\$7) Warrants, all with a 30 year life. The warrants are subject to cashless exercise based upon the ten day trailing closing bid price preceding the exercise as interpreted by the Company. The fair value of the warrants issued under the agreements was estimated on the date of the issuance using the Black-Scholes option pricing model. The use of a valuation model requires the

Mentor Capital, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 9 - Common stock warrants (continued)

Company to make certain assumptions with respect to selected model inputs. Expected volatility was calculated based on the historical volatility of the Company's stock price. The average expected life is based on the contractual term of the warrant and expected exercise behavior. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant.

The following table provides the assumptions used to value the options granted and warrants issued using the Black-Scholes option pricing model:

	Series E and G	Series F and H
Stock price volatility	111.60%	111.60%
Risk-free rate of return	4.26%	4.26%
Annual dividend yield	0.00%	0.00%
Expected life (in years)	0.5	3.0

As of December 31, 2013 and 2012 the weighted average contractual life for all Mentor warrants was 24.5 years and 25.5 years, respectively, and the weighted average outstanding warrant exercise price was \$4.92 and \$4.43 per share, respectively.

During the years ended December 31, 2013 and 2012, a total of 2,619,332 and 1,645,472 warrants were exercised, respectively. There were no warrants issued during the years ended December 31, 2013 and 2012. The intrinsic value of outstanding warrants at December 31, 2013 and 2012 was \$1,553,055 and \$755,076, respectively.

The following table summarizes common stock warrants as of each period:

	Series A	Series B	Series C	Series D	A,B,C,D Total Warrants
Outstanding at December 31, 2011	2,244,916	8,199,330	470,628	15,312,627	26,227,501
Issued	-	-	-	-	-
Exercised	(1,056,007)	(247,017)	(342,448)	-	(1,645,472)
Outstanding at December 31, 2012	1,188,909	7,952,313	128,180	15,312,627	24,582,029
Issued	-	-	-	-	-
Exercised	-	(2,619,332)	-	-	(2,619,332)
Outstanding at December 31, 2013	<u>1,188,909</u>	<u>5,332,981</u>	<u>128,180</u>	<u>15,312,627</u>	<u>21,962,697</u>

Mentor Capital, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 9 - Common stock warrants (continued)

Series E, F, G and H warrants were issued for investment banking and advisory services during 2009. The warrants, none of which have been exercised, are as follows:

	Series E \$1.00 exercise price	Series F \$3.00 exercise price	Series G \$0.65 exercise price	Series H \$7.00 exercise price	E,F,G,H Total Warrants
Outstanding at December 31, 2011, 2012 and 2013	107,931	369,037	88,579	689,159	1,254,706

Note 10 - Warrant redemption liability

The Plan of Reorganization provides the right for the Company to call, and the Company or its designee to redeem warrants that are not exercised timely, as specified in the Plan, by transferring a \$0.10 redemption fee to the former holders. Certain individuals desiring to become a Company designee to redeem warrants have deposited redemption fees with the Company that, when warrants are redeemed, will be forwarded to the former warrant holders at their last known address 30 days after the last warrant of a class is exercised, or earlier at the discretion of the Company. The Company has arranged for a service to process the redemption fees in offset to an equal amount of liability. Included in prepaid expenses at December 31, 2013 and 2012 was \$192,411 and \$400,161 of prepaid warrant redemption fees, respectively.

Note 11 - Stockholders' equityCommon Stock

The Company has a total of 400,000,000 shares of Common Stock, no par value authorized at December 31, 2013 and 2012. The holders of Common Stock are entitled to one vote per share on all matters submitted to a vote of the stockholders and may accumulate their votes for the election of directors. During 2007, the Company effected a 1,000 to 1 reverse stock split on its outstanding common stock, under the authority of the Plan, and subsequent to receiving 84% shareholder approval and Board of Directors approval. During September 2008, the Company announced a stock repurchase plan which allowed for a total of 12.5% of the Company's shares outstanding at that time to be repurchased during future periods. All shares under the 2008 repurchase plan were repurchased prior to December 31, 2013.

Mentor Capital, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 12 - Income tax

The Company -is taxed as a C-Corporation for federal income tax purposes. The Company does not file income tax returns for federal or state purposes.

The provision (benefit) for income taxes for the years ended December 31, 2013 and 2012 consist of the following:

	2013	2012
Current:		
Federal	\$ -	\$ -
State	800	1,500
	<u>800</u>	<u>1,500</u>
Deferred:		
Federal	68,700	67,300
State	17,800	17,300
Change in valuation	(86,500)	(84,600)
	<u>-</u>	<u>-</u>
Total provision (benefit)	<u>\$ 800</u>	<u>\$ 1,500</u>

The Company has net deferred tax assets resulting from a timing difference in recognition of deferred revenue and from net operating loss carryforwards.

At December 31, 2013, the Company had approximately \$488,800 of federal net operating loss carryforwards that begin expiring in 2030 and \$854,000 of California net operating loss carryforwards that begin expiring in 2022.

The income tax provision (benefit) differs from the amount computed by applying the US federal income tax rate of 34% to net income (loss) before income taxes for the years ended December 31, 2013 and 2012 as a result of the following:

	2013	2012
Net income (loss) before taxes	\$ (258,784)	\$ (236,711)
US federal income tax rate	<u>34%</u>	<u>34%</u>
Computed expected tax provision (benefit)	(87,987)	(80,482)
Permanent differences and other	1,487	(4,118)
Change in valuation	<u>86,500</u>	<u>84,600</u>
Federal income tax provision	<u>\$ -</u>	<u>\$ -</u>

Mentor Capital, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 12 - Income tax (continued)

The significant components of deferred income tax assets as of December 31, 2013 and 2012 after applying enacted corporate income tax rates are as follows:

	2013	2012
Net Operating Losses carried forward	\$ 241,300	\$ 130,600
Deferred revenue and other	267,600	281,600
Valuation allowance	(508,900)	(412,200)
	<u>\$ -</u>	<u>\$ -</u>

Note 13 - Lease commitmentsOperating Leases

Mentor currently rents approximately 2,000 square feet of office space on a month-to-month basis in Ramona, California in San Diego County. Rent expense for the years ended December 31, 2013 and 2012 were \$22,435 and \$26,628, respectively.

Note 14 – Accrued salary, accrued retirement and related party transactions

As of December 31, 2013 and 2012, the Company had an outstanding liability to its Chief Executive Officer ("CEO") for accrued salaries and benefits in the amount of \$900,238 and \$755,107, respectively, and accrued retirement and other benefits of \$431,087, \$422,421, respectively, that have accrued variably over the preceding 28 years.

Note 15 - Commitments and contingencies

During the normal course of business, the Company may be exposed to litigation. When the Company becomes aware of potential litigation, it evaluates the merits of the case in accordance with FASB ASC 450-20-50, Contingencies. The Company evaluates its exposure to the matter, possible legal or settlement strategies and the likelihood of an unfavorable outcome. If the Company determines that an unfavorable outcome is probable and can be reasonably estimated, it establishes the necessary accruals. As of December 31, 2013 and 2012, the Company is not aware of any contingent liabilities that should be reflected in the accompanying financial statements.

Note 16 – Segment Information

Currently, the Company is operating in investment business and has only one location. Therefore, no operating units or geographic segment information will be provided.

Mentor Capital, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 17 - Subsequent events

Purchase of majority interest in WCI

Effective January 1, 2014, Mentor purchased an additional 1% interest in WCI for \$25,000 which resulted in a 51% ownership in WCI.

In 2013 and 2012 Mentor's investment in WCI was recorded as an associated company under the equity method. The Company did not have any control in the Board of Director of WCI and did not have any obligation to provide financing or absorb any residual gain of WCI,

In accordance with Accounting Standard Codification 810-10, *Consolidation – Overall*, on January 1, 2014 Mentor remeasured its previously held equity interest at the acquisition-date fair value and recognized the resulting gain on investment in subsidiary. From then on, the Company will consolidate WCI as a subsidiary and calculate the 49% non-controlled interest equity as required by ASC 810.

Loan to CEO for exercise of warrants required for loan escrow

The Company agreed to loan the CEO approximately 70.9% of amounts owed to him, or \$944,000, in January 2014, to exercise additional warrants into shares to be used as collateral for a potential loan to the Company. After the warrants were exercised, CEO Billingsley has 100% of his shares owned, 5 million shares, in an escrow which was to guarantee the potential loan. The loan was mutually rescinded on June 12, 2014, and the shares remain in escrow as of the audit date.

Acquisition of interest in Bhang Chocolate Company, Inc. and suit seeking rescission

On January 17, 2014, the Company transitioned out of its cancer related trading dormancy by announcing its first cannabis sector letter of intent amidst significantly increased share volume and price. The Company entered into a co-operative funding agreement with Bhang Chocolate Company, Inc. on February 28, 2014, that provided for the purchase from original owners of a 60% ownership in Bhang. Unrelated debt funding for Mentor Capital had been announced by a private equity group. Bhang original owners were to receive \$9,000,000 in consideration in the first 90 days. During the first 90 days, \$1,500,000 was provided to Bhang original owners from proceeds of warrant exercise. The lending equity group was unable to fund the loan they announced.

As provided in the funding agreement, in the event of any shortfall in cash payment, the Bhang owners may elect to immediately receive free trading Mentor shares to the extent not otherwise covered by cash available for payment, or alternatively, they may elect to receive cash from ongoing warrant exercise plus a 10% late payment penalty. The owners asked for immediate payment and \$7,500,000 in freely trading shares were delivered to them.

An additional \$30,000,000 million in expansion funding was to be gradually invested into the Bhang Chocolate Company as it was received from warrant exercise over approximately the next 36 months. In response to the unexpected inability of the private equity group to fund the loan, Mentor triggered the "contingent payoff" provision in the contract by decreasing the strike price on its already called outstanding D warrants to \$1.60 per share. In connection with the contingent payoff, if there is a future shortfall in delivering the \$30,000,000 after all MNTR warrants were exercised, the Company can fully satisfy its obligation by issuing 200% of the shortfall in common stock to Bhang owners. The Company has complied with the contract obligations to date. The Company paid Bhang owners \$1,500,000 within

Mentor Capital, Inc.

Notes to Financial Statements

December 31, 2013 and 2012

Note 17 - Subsequent events (continued)

the first 90 days and the shortfall was paid by assigning Mentor shares to Bhang minority owners or in the alternative could have been satisfied from ongoing warrant exercise.

On June 24, 2014, Bhang owners unilaterally announced that Bhang was no longer doing any business with Mentor and Bhang was terminating all remaining details of its relationship with Mentor. Bhang failed to provide share certificates as evidence of ownership or provide other promised consideration to Mentor, effectively rescinding the contract by their actions. In addition, Bhang owners have declined to return any of the \$1,500,000 they were paid from Mentor. On August 11, 2014, Mentor filed suit against Bhang and its owners, in the United States District Court for the Northern District of California for rescission seeking return of the \$1,500,000 investment the Company made to Bhang.

Acquisition in MicroCannaBiz and related funding agreement

The Company entered into a co-operative funding agreement with MicroCannaBiz ("MCB"), that closed on February 18, 2014, to purchase up to a 51% interest in MCB, a development stage company. MCB provides cannabis and marijuana related private companies, investors and microcap issuers with information resources including client company specific publications, directories, and continuing education courses. MCB is to receive up to \$200,000 in funding as Mentor receives proceeds from warrant exercise. Allocation of funding to MCB is discretionary and may be reduced to \$100,000 with no change in Mentor's ownership if Mentor is dissatisfied with MCB performance. The Company has the right, in its sole discretion, to convert the paid portion of the \$200,000 equity investment in MCB to a six percent (6%) ten-year note payable to Mentor by the majority owner of MCB in 120 equal payments of principal and interest at any time. If triggered, this provision would truncate further funding. Alternatively, if Mentor's allocation of funds to MCB is less than the *pro rata* share MCB would normally receive from warrant exercise under the agreement, then MCB may elect to convert the equity investment to a loan.

Loan commitment fee receivable

In March 2013, the Company paid \$621,200, which represented 1.75% of the potential loan amount, in refundable fees paid for credit default insurance to a third party as required by the lender on an international loan facility. The lender was unable to fund the loan and a cooperative exit from the loan commitment was agreed to by the parties on June 12, 2014. The lender has released the requirement for credit default insurance and the insurance company has agreed to return the fee, however the refund has not yet been received. On September 5, 2014, the Company filed suit in San Mateo County Superior Court against Wm. E. Fielding and Associates, Inc. for conversion and fraud seeking return of the \$621,200 in fees.