

**MENTOR CAPITAL, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008 and 2007**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Mentor Capital, Inc.

We have audited the accompanying consolidated balance sheets of Mentor Capital, Inc. as of December 31, 2008 and 2007, and the related consolidated statement of operations, stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mentor Capital, Inc. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Squar Milner Peterson Miranda &amp; Williamson, LLP".

**SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP**

Newport Beach, California  
September 8, 2009

SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP  
*Certified Public Accountants & Financial Advisors, Serving Clients Since 1954*

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**MENTOR CAPITAL, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 173,259	\$ 14,061
Accounts receivable	90,714	40,962
Note receivable - related party	494,773	491,173
Investments	100,000	-
Management fee receivable	267,055	175,312
Note receivable	39,500	39,500
Interest receivable	12,371	8,491
Property and equipment, net	4,861	-
Other assets	703	400
	<u>\$ 1,183,236</u>	<u>\$ 769,899</u>
Total assets	<u>\$ 1,183,236</u>	<u>\$ 769,899</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Liabilities</b>		
Accounts payable	\$ 22,323	\$ 4,847
Deposits	12,500	21,500
Deferred revenue	-	157,780
Accrued salary and benefits – related party	667,469	721,349
Accrued tax liability	-	800
Warrant redemption liability	485,010	482,910
Accrued retirement and other benefits – related party	483,670	475,007
	<u>1,670,972</u>	<u>1,864,193</u>
Total liabilities	<u>1,670,972</u>	<u>1,864,193</u>
<b>Stockholders' Deficit</b>		
Preferred stock, no par value: 100,000,000 shares authorized, no shares issued and outstanding at December 31, 2008 and 2007	-	-
Common stock, no par value: 400,000,000 shares authorized, 546,117 and 15,075 shares issued and outstanding at December 31, 2008 and 2007, respectively	573,516	3,458
Accumulated deficit	(1,061,252)	(1,097,752)
	<u>(487,736)</u>	<u>(1,094,294)</u>
Total stockholders' deficit	<u>(487,736)</u>	<u>(1,094,294)</u>
Total liabilities and stockholders' deficit	<u>\$ 1,183,236</u>	<u>\$ 769,899</u>

**MENTOR CAPITAL, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>REVENUE</b>		
Administration fees	\$ 42,750	\$ 68,567
Management and performance fees	248,576	17,532
Total revenue	<u>291,326</u>	<u>86,099</u>
<b>OPERATING EXPENSES</b>	<u>(264,185)</u>	<u>(184,987)</u>
Operating income (loss)	<u>27,141</u>	<u>(98,888)</u>
<b>OTHER INCOME (EXPENSE)</b>		
Interest income	11,829	7,641
Interest expense	(1,670)	( 986)
Total other income	<u>10,159</u>	<u>6,655</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	37,300	(92,233)
Provision for income taxes	<u>800</u>	<u>800</u>
<b>NET INCOME (LOSS)</b>	<u>\$ 36,500</u>	<u>\$ (93,033)</u>
Earnings (loss) per share – basic	<u>\$ 0.16</u>	<u>\$ (6.33)</u>
Weighted average shares – basic	<u>221,742</u>	<u>14,699</u>
Earnings (loss) per share – diluted	<u>\$ 0.03</u>	<u>\$ (6.33)</u>
Weighted average shares – diluted	<u>1,168,440</u>	<u>\$ 14,699</u>

**MENTOR CAPITAL, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT**  
**For the Years Ended December 31, 2008 and 2007**

	<u>Common Stock</u>		<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Deficit</u>	
<b>Balance – December 31, 2006</b>	14,327,352	\$ 36,458	\$ (1,004,719)	\$ (968,261)
Reverse stock split	(14,308,152)	-	-	-
Common stock reacquired	(4,125)	(33,000)	-	(33,000)
Net loss	-	-	(93,033)	(93,033)
<b>Balance – December 31, 2007</b>	15,075	\$ 3,458	\$ (1,097,752)	\$ (1,094,294)
Proceeds from issuance of common stock	536,425	580,550	-	580,550
Common stock reacquired	(5,383)	(10,492)	-	(10,492)
Net income	-	-	36,500	36,500
<b>Balance – December 31, 2008</b>	<u>546,117</u>	<u>\$ 573,516</u>	<u>\$ (1,061,252)</u>	<u>\$ (487,736)</u>

**MENTOR CAPITAL, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 36,500	\$ (93,033)
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation and amortization	82	-
Changes in operating assets and liabilities		
Accounts receivable	(49,751)	(29,383)
Management fee receivable	(91,743)	(175,312)
Note receivable - related party	(3,600)	(137,633)
Interest receivable	(3,880)	(2,824)
Other assets	(303)	
Accounts payable	17,476	(15,011)
Accrued salaries and benefits – related party	(53,880)	8,666
Accrued retirement and other benefits – related party	8,663	90,000
Deposits	(9,000)	(6,000)
Accrued tax liability	(800)	800
Deferred revenue	(157,780)	157,780
Warrant redemption liability	2,100	244,975
<b>Net cash (used in) provided by operating activities</b>	<b>(305,916)</b>	<b>43,025</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(4,944)	-
Investment in hedge fund	(100,000)	-
<b>Net cash used in investing activities</b>	<b>(104,944)</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of common stock	580,550	-
Payment of term loan	-	(8,201)
Repurchase of common stock	(10,492)	(33,000)
<b>Net cash used in financing activities</b>	<b>(570,058)</b>	<b>(41,201)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>159,198</b>	<b>1,824</b>
<b>CASH AND CASH EQUIVALENTS – beginning of year</b>	<b>14,061</b>	<b>12,237</b>
<b>CASH AND CASH EQUIVALENTS – end of year</b>	<b>\$ 173,259</b>	<b>\$ 14,061</b>
<b>Supplemental disclosures of cash flow information</b>		
Interest paid	\$ 1,670	\$ 986
Taxes paid	\$ 800	\$ 800

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**MENTOR CAPITAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008 and 2007**

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**1. DESCRIPTION OF BUSINESS**

Mentor Capital, Inc. (“the Company”) was 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 of 1933 by the SEC, and the Company began to trade its shares publicly. On August 21, 1998, (the “Petition Date”) the Company filed voluntary proceedings under Chapter 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Northern District of California. On December 6, 1999, the Company’s Plan of Reorganization (“the Plan”) was approved by the bankruptcy court and, on January 11, 2000, the Company emerged from Chapter 11. The Company has contracted to provide financial assistance to small businesses since its reorganization. In October 2007, the Company entered into an agreement with a hedge fund to provide significant investment into the hedge fund investing partnerships (the “Fund(s)"). In addition to receiving returns from its investment in the Funds, the Company shares in a percentage of the fund management company’s (the “Management Company”) earned performance and management fees on currently invested and future assets under management, whether the investment is provided by others or by the Company. During August 2008, the Company’s common stock resumed trading publicly under the trading symbol MNTR.PK.

**2. BASIS OF PRESENTATION**

The accompanying financial statements have been prepared under the assumption that the Company will continue as a going concern. Such assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. As shown in the financial statements as of December 31, 2008 and for the year then ended, the Company has limited cash resources and has an accumulated deficit of approximately \$1.1 million through December 31, 2008.

Management's plans include increasing revenues to a level capable of supporting its operations, and raising additional capital through the sale of equity securities. While management is confident of their ability to execute these actions, there can be no assurance that it will be successful or that the Company will attain profitable operating levels in the future. These financial statements do not contain any adjustments that might result from the failure of the Company to continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability of the carrying amount of recorded assets or the amount of liabilities that might result from the outcome of these uncertainties.



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**MENTOR CAPITAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008 and 2007**

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### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### *Use of Estimates in the Preparation of Financial Statements*

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, 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 respective reporting periods. Actual results could differ from those estimates.

#### *Concentrations of Revenue*

The Company derives its revenue from two main customers which account for 85% and 20%, and 15% and 80%, respectively of the Company's revenues during 2008 and 2007.

#### *Fair Value of Financial Instruments*

The carrying amounts of cash equivalents, accounts receivable, management fees receivable, note receivable and other current assets, accounts payables, and accrued liabilities approximate fair value due to the short maturity of these instruments.

#### *Cash and Cash Equivalents*

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. At times, cash balances may be in excess of amounts insured by Federal agencies.

#### *Accounts Receivable*

The Company reviews its accounts receivable on a periodic basis to determine if an allowance for doubtful accounts is necessary based on its assessment of the collectability of specific customers and history of bad debts. The estimate of allowance for doubtful accounts is based on the Company's bad debt experience, market conditions, collateral available, and aging of accounts receivable, among other factors. If the financial condition of the Company's customers deteriorates resulting in the customer's inability to pay the Company's receivables as they come due, additional allowances for doubtful accounts will be required. At December 31, 2008 and 2007, the Company considers its accounts receivable to be fully collectible and no allowance has been included in the accompanying financial statements.

#### *Management Fee Receivable*

Management fee receivable represents fees earned from a hedge fund for investor relations and capital raising services performed by the Company in accordance with a Funding Agreement (see Note 5).

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**MENTOR CAPITAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008 and 2007**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Investment***

The Company's investment in a hedge fund is recorded under the cost-method as the fair market value is not readily determinable. 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 cost-method investment for impairment each reporting period.

***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation. Depreciation has been computed using the straight-line method over the estimated useful lives as follows:

Office furniture and equipment	3-5 years
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Betterment and large renewals which extend the life of the asset are capitalized. Costs for repairs and maintenance are expensed as incurred.

***Revenue Recognition***

The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition". The Company records revenue under each contact 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. Fees are based on monthly contractual terms and some based on performance of the client. Service is presumed to be rendered as of the end of each monthly period.

***Income (loss) per common share***

Basic income (loss) per common share is calculated by dividing net income (loss) by the weighted-average number of shares of common stock outstanding. For the year ended December 31, 2008, the diluted earnings per common share includes the components of basic earnings per common share and also gives effect to dilutive common stock equivalents such as potentially dilutive common stock purchase warrants. No dilutive effect was calculated for the year ended December 31, 2007, as the Company reported a net loss in the period and the effect would have been anti-dilutive.

***Income Taxes***

Income taxes are accounted for on an asset and liability method. Accordingly, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured

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**MENTOR CAPITAL, INC.**  
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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Income Taxes* (continued)

using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

A valuation allowance is provided for deferred tax assets if it is more likely than not that the Company will not realize deferred tax assets in future operations.

*New Accounting Pronouncements*

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), *Business Combinations* (“SFAS 141(R)”). This statement requires the acquiring entity in a business combination to record all assets acquired and liabilities assumed at their respective acquisition-date fair values, changes the recognition of assets acquired and liabilities assumed arising from contingencies, changes the recognition and measurement of contingent consideration, and requires the expensing of acquisition-related costs as incurred. SFAS 141(R) also requires additional disclosure of information surrounding a business combination, such that users of the entity’s financial statements can fully understand the nature and financial impact of the business combination. The Company will implement SFAS No. 141(R) on January 1, 2009 and does not expect the adoption of this standard to have a material impact on its financial position or cash flows.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB 51* (“SFAS 160”). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent’s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also established reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owner. The Company will implement SFAS No. 160 on January 1, 2009 and does not expect the adoption of this standard to have a material impact on its financial position or cash flows.

**4. NOTE RECEIVABLE**

At December 31, 2008 and 2007, note receivable consists of a note for \$39,500 from one of the Company's customers who is also a minority stockholder in the Company. The note accrues interest at 7.8% per annum. No payments are due on the note until certain stock price performance thresholds are met, which did not occur during the current year.

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**MENTOR CAPITAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. NOTE RECEIVABLE** (continued)

Thereafter, payments are to be made in twelve equal monthly installments in an amount that fully amortizes the outstanding principal and accrued interest. The total amount of accrued interest was \$12,371 and \$8,491 as of the ended December 31, 2008 and 2007.

**5. PROPERTY AND EQUIPMENT**

Property and equipment, net, consist of the following as of December 31:

	<u>2008</u>	<u>2007</u>
Computer equipment	\$ 4,943	\$ -
Office equipment	10,240	10,240
Furniture and fixtures	<u>2,010</u>	<u>2,010</u>
Property and equipment, gross	17,193	12,250
Less: accumulated depreciation	<u>(12,332)</u>	<u>(12,250)</u>
Property and equipment, net	<u>\$ 4,861</u>	<u>\$ -</u>

Deprecation expense was \$82 and \$0 for the years ended December 31, 2008 and 2007, respectively.

**6. FUNDING AGREEMENT**

The Company entered into a Permanent Funding Agreement (“Funding Agreement”) with a hedge fund (the "Funds") and its management company (the “Management Company”) effective October 1, 2007. Based on terms of the agreement, the Company has agreed to invest \$125 million in the Funds with proceeds derived from the exercise of the Company's outstanding warrants, and to provide investor relations services to raise additional capital for the Funds. In exchange for the commitment of \$125 million in funding to the Funds, the Funding Agreement provides for the Company to receive a percentage of the performance and management fees earned by the Management Company on all funds under management. According to the terms of the Funding Agreement, the Company will receive 80% of the net performance and management fees, and once certain stock price thresholds are met the percentage on additional assets under management will be reduced to 20%. Payment of fees owed to the Company were contingent on the premise that the Company’s shares would be publicly traded and until such shares were publicly traded, only 10% of the fees would be considered fully earned. As of December 31, 2007, the Company’s shares had not yet begun to publicly trade and \$157,780 was recorded as deferred revenue. As noted in Note 1, the Company’s shares began to trade publicly during 2008 and the total amount of deferred revenue was recognized during 2008.

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**MENTOR CAPITAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008 and 2007**

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**6. FUNDING AGREEMENT** (continued)

During November 2008, the Company invested \$100,000 in accordance with the Funding agreement. The Company has recorded the investment at cost given the fact that there is not a readily determinable fair market value for the interest in the hedge fund. The Company does not believe that there have been any indicators of impairment in its investment as of December 31, 2008.

**7. 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 each year and were to expire on May 11, 2008. The expiration date of the warrants was extended until May 11, 2038, by the Company on August 1, 2008. 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. For the years ended December 31, 2008 and 2007, the weighted average contractual life was 29.5 years and .5 years, respectively. For the years ended December 31, 2008 and 2007, the weighted average exercise price was 5.11 and 5.04, respectively.

Each warrant is callable by the Company if the share price exceeds the exercise price by \$1 or greater. The warrant holders have 90 non-consecutive calendar days, of greater than \$1 per share in-the-money trading, during which to exercise their warrants once they are called. 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 8.

During the years ended December 31, 2008 and 2007 a total of 536,425 and 0 warrants were exercised. During the years ended December 31, 2008 and 2007 a total of 0 and 1,294,654 warrants were issued. During the years ended December 31, 2008 and 2007, the total intrinsic value of outstanding warrants was \$1,366,455 and \$0.

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**MENTOR CAPITAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**7. COMMON STOCK WARRANTS** (continued)

The following table summarizes common stock warrants as of December 31, 2008 and 2007:

	<b>Series A - \$1 Exercise price</b>	<b>Series B - \$3 Exercise price</b>	<b>Series C - \$5 Exercise price</b>	<b>Series D - \$7 Exercise price</b>	<b>Total Warrants</b>
Outstanding at December 31, 2006	2,989,180	7,997,868	1,768,260	14,705,303	27,460,611
Issued	237,300	247,116	200,300	609,938	1,294,654
Outstanding at December 31, 2007	3,226,480	8,244,984	1,968,560	15,315,241	28,755,265
Exercised	(493,571)	(42,854)	-	-	(536,425)
Outstanding at December 31, 2008	2,732,909	8,202,130	1,968,560	15,315,241	28,218,840

**8. 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 acquire warrants or increase existing warrant holdings 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 a 90 day call period expires. The Plan provides that if the redemption fee checks are not cashed within 90 days, then those redemption fees will be retained by the Company as additional paid in capital. As of December 31, 2008, deposits received to fund the \$0.10 redemption fee amounted to \$485,010.

**9. STOCKHOLDERS DEFICIT**

*Common Stock*

The Company has a total of 400,000,000 shares of Common Stock, no par value authorized at December 31, 2008. 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.

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**MENTOR CAPITAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**9. STOCKHOLDERS DEFICIT** (continued)

*Common Stock* (continued)

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 Director approval. During 2007, 4,152 shares were repurchased by the Company for total payments of \$33,000 based on the current market price of the shares outstanding at the time of repurchase.

During September 2008, the Company announced a stock repurchase plan which allowed for a total of 50,000 shares to be repurchased during future periods. During 2008, 5,383 shares were repurchased by the Company for total payments of \$10,492 based on the current market price of the shares outstanding at the time of repurchase.

**10. INCOME TAXES**

In June 2006, the FASB issued FASB Interpretation Number 48 ( "*FIN 48*" ), *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* , which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes* , and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is, more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The Company adopted the provisions of FIN 48 on January 1, 2007, and has commenced analyzing filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. As a result of adoption, the Company has recorded no additional tax liability. As of December 31, 2008, the Company has not yet completed its analysis of the deferred tax assets for net operating losses of \$638,808. As such, these amounts and the offsetting valuation allowance have been removed from the Company's deferred tax assets. The Company will complete a Section 382 analysis regarding the potential limitation of the net operating losses before the Company utilizes any net operating loss carryforwards.

There were no changes in the Company's unrecognized tax benefits during 2008. Due to the existence of the valuation allowance, future changes in our unrecognized tax benefits will not impact the Company's effective tax rate.

**MENTOR CAPITAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**10. INCOME TAXES** (continued)

The Company is subject to taxation in the U.S. and state jurisdictions. The Company's tax years for 2002 and forward are subject to examination by the U.S. and California tax authorities due to the carryforward of unutilized net operating losses. The Company is currently not under examination by any taxing authorities.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. During the years ended December 31, 2008 and 2007, the Company did not recognize any interest or penalties. Upon adoption of FIN 48 on January 1, 2007, the Company did not record any interest penalties.

The adoption of FIN 48 did not impact the Company's financial condition, results of operations or cash flows. At December 31, 2008 and 2007, the Company had net deferred tax assets \$423,133 and \$419,191, respectively. Due to uncertainties surrounding the Company's ability to generate future taxable income to realize these assets, a full valuation allowance has been established to offset the net deferred tax asset. Additionally, the future utilization of the Company's net operating loss to offset future taxable income may be subject to an annual limitation as a result of ownership changes that may have occurred previously or that could occur in the future. The Company has not yet determined whether such an ownership change has occurred; however the Company will complete a Section 382 analysis regarding the limitation of the net operating loss before any losses are utilized. Until this analysis has been completed the Company has removed the deferred tax assets associated with these carryforwards from its deferred tax asset schedule and has recorded a corresponding decrease in its valuation allowance. When the Section 382 analysis is completed, the Company plans to update its unrecognized tax benefits under FIN 48.

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Significant components of the Company's deferred tax assets as of December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Deferred tax assets		
Federal net operating loss carryforward	\$ -	\$ -
State net operating loss carryforward	-	-
Deferred salary and benefits	423,133	419,191
	<u>423,133</u>	<u>419,191</u>
Deferred tax liabilities	<u>-</u>	<u>-</u>
Less: Valuation allowance	<u>(423,133)</u>	<u>(419,191)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>



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**MENTOR CAPITAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**10. INCOME TAXES** (continued)

The provision for income tax on earnings subject to income taxes differs from the statutory federal income tax rate at December 31, 2008 and 2007 due to the following:

	<u>2008</u>	<u>2007</u>
Expected federal income tax expense (benefit)	\$ 3,942	\$ (33,903)
Change in valuation allowance, net of removal of deferred assets and net operating losses	(3,942)	33,903
State income taxes	800	800
Provision for income taxes	<u>\$ 800</u>	<u>\$ 800</u>

**11. COMMITMENTS AND CONTINGENCIES**

*Operating Leases*

The Company currently rents office space on a month-to-month basis in Ramona, California. Rent expense for the years ended December 31, 2008 and 2007 was \$11,880 and \$11,780, respectively.

**12. RELATED PARTY TRANSACTIONS**

As of December 31, 2008 and 2007, the Company has an outstanding note receivable with its Chief Executive Officer ("CEO") in the amount of \$494,773 and \$491,173, respectively. The Company also has an accrued salaries/benefit liability to the CEO in the amount of \$1,151,139 and \$1,196,356, respectively. The note receivable has no specific due date and does not bear interest as long as amounts owed to the CEO for accrued but unpaid salary and benefits are in excess of the amount of the note at the valuation date. Advances made on the note during 2008 amounted to \$3,600, and amounts recorded as payable to the CEO decreased by \$45,215 during the year.

**13. SUBSEQUENT EVENTS**

On July 8, 2009, Mentor Capital, Inc. acquired 19.9% of the common stock of Quantum Immunologics, Inc. (QI), a Delaware C Corporation. The stock was granted in exchange for pledging to deliver 83% of the monthly warrant proceeds from the outstanding Series A warrants of Mentor Capital to QI. The total pledged amount is \$2,244,000 which granted Mentor Capital the ownership of 187,000 shares of QI.