

Regency Affiliates, Inc. and Subsidiaries

Consolidated Financial Statements

September 30, 2016 and 2015

Regency Affiliates, Inc. and Subsidiaries
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Independent Auditor's Review Report

To the Board of Directors and Stockholders of
Regency Affiliates, Inc. and Subsidiaries

We have reviewed the accompanying consolidated financial statements of Regency Affiliates, Inc. and Subsidiaries, which comprise the combined balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of income, changes in equity, and cash flows for the nine month periods then ended.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditor's Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with generally accepted accounting principles in the United States of America.

Rosenberg Rich Baker Berman & Company

Somerset, New Jersey
September 20, 2017

Regency Affiliates, Inc. and Subsidiaries
Consolidated Balance Sheets

	September 30,	
	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,938,152	\$ 8,200,204
Restricted cash	246,357	-
Prepaid expenses	381,846	76,245
Prepaid insurance	112,894	-
Prepaid income taxes	303,136	409,456
Rent receivable	1,369	18,000
Inventory	8,343	-
Total Current Assets	5,992,097	8,703,905
Real Estate		
Self-storage properties	35,063,771	-
Less accumulated depreciation	(354,841)	-
	34,708,930	-
Property, plant, and equipment, net	23,967	513
Investment in partnerships / LLC	35,140,894	31,156,981
Prepaid insurance, net of current portion	490,450	-
Other assets	204,360	3,031
Deferred tax asset	504,000	-
Total Assets	\$ 77,064,698	\$ 39,864,430
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued expenses	\$ 223,500	\$ 64,539
Deferred revenue	143,132	-
Deferred rent	73,918	-
Income taxes payable	35,065	-
Dividends payable	291,466	216,115
Tenant security deposits	335	-
Preferred Series D redemptions payable	-	21,390
Total Current Liabilities	767,416	302,044
Mortgage note payable	25,129,010	-
Total Liabilities	25,896,426	302,044
Equity		
Serial preferred stock, par value \$0.10; 2,000,000 shares authorized; -0- shares issued and outstanding	-	-
Common stock, par value \$0.01; 8,000,000 shares authorized; 4,778,144 and 3,678,559 issued and outstanding, respectively	47,781	36,786
Additional paid in capital	13,964,955	5,057,196
Retained earnings	37,063,723	34,468,404
Shareholders' Equity	51,076,459	39,562,386
Non-controlling Interest	91,813	-
Total Equity	51,168,272	39,562,386
Total Liabilities and Equity	\$ 77,064,698	\$ 39,864,430

See independent auditor's review report and accompanying notes to the consolidated financial statements.

Regency Affiliates, Inc. and Subsidiaries
Consolidated Statements of Income

	Nine Months Ended September 30,	
	2016	2015
Revenue		
Rental	\$ 1,384,785	4,500
Insurance, late fees and other income	74,494	-
Retail	3,148	-
	1,462,427	4,500
Total Revenue		
	1,462,427	4,500
Operating Expenses		
Self-storage cost of operations	501,694	-
Self-storage depreciation expense	354,841	-
General and administrative expenses	1,776,015	858,766
	2,632,550	858,766
Total Operating Expenses		
	2,632,550	858,766
Loss from Operations	(1,170,123)	(854,266)
Other Income (Expense)		
Amortization of debt discount	(5,260)	-
Acquisition costs	(1,298,494)	-
Income from equity investment in partnerships / LLC	4,940,350	4,457,276
License agreement income	44,189	-
Interest income	2,559	43
Interest expense	(565,012)	-
	3,118,332	4,457,319
Total Other Income		
	3,118,332	4,457,319
Net Income Before Income Taxes	1,948,209	3,603,053
Income Tax Expense (Benefit)	(70,674)	649,369
Net Income	2,018,883	2,953,684
Net Loss Allocated to Non-controlling Equity Interest	(252,862)	-
Net Income Allocated to Shareholders	\$ 2,271,745	\$ 2,953,684

Regency Affiliates, Inc. and Subsidiaries
Consolidated Statement of Changes in Equity
For the Year Ended December 31, 2015 and
the Nine Months Ended September 30, 2016

	Preferred Stock		Common Stock		Additional	Retained	Shareholders'	Non-	Total
	Shares	Amount	Shares	Amount	Paid in Capital	Earnings	Equity	controlling Interest	Equity
Balance - January 1, 2015	-	\$ -	3,628,559	\$ 36,286	\$ 4,912,696	\$ 32,132,727	\$ 37,081,709	\$ -	\$ 37,081,709
Common stock options exercised	-	-	50,000	500	144,500	-	145,000	-	145,000
Cash dividends paid	-	-	-	-	-	(618,007)	(618,007)	-	(618,007)
Cash dividends declared	-	-	-	-	-	(216,115)	(216,115)	-	(216,115)
Net income	-	-	-	-	-	4,282,901	4,282,901	-	4,282,901
Balance - December 31, 2015	-	-	3,678,559	36,786	5,057,196	35,581,506	40,675,488	-	40,675,488
Cashless exercise of common stock options	-	-	20,952	209	(209)	-	-	-	-
Common stock issued through private placement offering	-	-	1,078,633	10,786	8,887,936	-	8,898,722	-	8,898,722
Contribution by non-controlling interest	-	-	-	-	-	-	-	350,000	350,000
Stock options compensation expense	-	-	-	-	20,032	-	20,032	-	20,032
Cash dividends paid	-	-	-	-	-	(498,062)	(498,062)	(5,325)	(503,387)
Cash dividends declared	-	-	-	-	-	(291,466)	(291,466)	-	(291,466)
Net income	-	-	-	-	-	2,271,745	2,271,745	(252,862)	2,018,883
Balance - September 30, 2016	-	\$ -	4,778,144	\$ 47,781	\$ 13,964,955	\$ 37,063,723	\$ 51,076,459	\$ 91,813	\$ 51,168,272

See independent auditor's review report and accompanying notes to the consolidated financial statements.

Regency Affiliates, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 2,018,883	\$ 2,953,684
Adjustments to reconcile net income to net cash used in operating activities:		
Income from equity investment in partnerships / LLC	(4,940,350)	(4,457,276)
Stock-based compensation	20,032	-
Depreciation	355,702	1,554
Amortization of debt discount	5,260	-
Bad debt expense	21,000	-
Deferred taxes	(504,000)	-
Changes in assets and liabilities		
(Increase) decrease in prepaid expenses	(270,612)	197,287
(Increase) in prepaid insurance	(603,344)	-
(Increase) in prepaid income taxes	(103,567)	(190,277)
(Increase) in rent receivable	(2,869)	(4,500)
(Increase) in inventory	(4,675)	-
(Increase) in other assets	(182,731)	-
Increase (decrease) in accounts payable and accrued expenses	33,174	(3,181)
Increase in deferred revenue	143,132	-
Increase in deferred rent	73,918	295
(Decrease) in income taxes payable	(29,956)	(185,146)
(Decrease) in tenant security deposits	(9,961)	-
Net cash used in operating activities	(3,980,964)	(1,687,560)
Cash flows from investing activities:		
Distribution of earnings from partnership	2,250,000	2,130,731
Cash paid for acquisition	(9,750,000)	-
Additional deposits to restricted cash	(246,357)	-
Purchases of fixed assets	(24,828)	-
Net cash (used in) provided by investing activities	(7,771,185)	2,130,731
Cash flows from financing activities:		
Proceeds from exercise of common stock options	-	145,000
Payment for redemption of preferred stock	-	(4,120)
Cash paid for debt financing fee	(126,250)	-
Proceeds from private placement common stock offering	8,898,722	-
Contribution by non-controlling interest	350,000	-
Dividends paid to common shareholders	(719,502)	(601,463)
Net cash provided by (used in) financing activities	8,402,970	(460,583)
Decrease in cash and cash equivalents	(3,349,179)	(17,412)
Cash and cash equivalents – beginning	8,287,331	8,217,616
Cash and cash equivalents – ending	\$ 4,938,152	\$ 8,200,204
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 462,283	\$ -
Income taxes	\$ 317,198	\$ 1,203,964
Schedule of Non-Cash Investing and Financing Activities:		
Common stock dividends declared	\$ 291,466	\$ 216,115
Cashless exercise of stock options	\$ 209	\$ -
Mortgage note payable to finance acquisition of Harrisburg Holdings investment	\$ 25,250,000	\$ -

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are presented on an accrual basis in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) as defined in the Financial Accounting Standards Board Accounting Standards Codification (“the Codification”). Certain amounts previously reported in our 2015 financial statements have been reclassified to conform to the 2016 presentation.

Nature of Operations

Regency Affiliates, Inc. (“Regency” or “the Company”) invests in assets that generate attractive, predictable and sustainable returns on capital. The Company’s objective is to generate long term value for its shareholders. Management seeks sound investment opportunities to meet its business characteristics and valuation criteria.

The Company holds a limited partnership interest in Security Land and Development Company Limited Partnership (“Security Land”), which owns and operates 34.3 acres of land and rental property of approximately 717,000 square feet in Woodlawn, Maryland, which is occupied by the United States Social Security Administration’s Office of Disability and International Operations. In November 2000, the Company acquired a 5% limited partnership interest in 1500 Woodlawn Limited Partnership, the general partner of Security Land. Also, refer to Note 2, “Investment in Security Land and Development Company Limited Partnership.”

In addition, Regency Power Corporation (“Regency Power”, 100% owned subsidiary of the Company) owns a 50% interest in MESC Capital, LLC, a Delaware limited liability company (“MESC Capital”). MESC Capital owns a 100% interest in Mobile Energy Services Company, LLC, an Alabama limited liability company (“Mobile Energy”), which owns an on-site energy facility that supplies steam and electricity to a Kimberly-Clark tissue mill in Mobile, Alabama. Also, refer to Note 3, “Investment in MESC Capital LLC,” for additional information.

In April 2016, Regency formed a new, wholly owned subsidiary, RSS Investments LLC (“RSS”). RSS entered into a joint-venture, acquiring a majority ownership (80%) of SSCP Harrisburg Holdings, LLC, a Delaware limited liability company (“Harrisburg Holdings”). Harrisburg Holdings is the sole member of SSCP Harrisburg Intermediate Holdings, LLC, a Delaware limited liability company (“Intermediate Holdings”). Simultaneously with RSS’s investment in Harrisburg Holdings, Harrisburg Intermediate Holdings acquired a portfolio of five self-storage facilities in Harrisburg, Pennsylvania. Refer to Note 4, “Acquisition of SSCP Harrisburg Holdings, LLC,” for additional information. Through our controlling interest of SSCP Harrisburg Holdings, LLC, we are focused on the ownership, operation, and acquisition of self-storage properties located within the Harrisburg, Pennsylvania area.

Principles of Consolidation

These consolidated financial statements include the accounts of Regency Affiliates, Inc. (the “Company”), and its wholly owned subsidiaries, Regency Power and RSS Investments LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note. 1. Summary of Significant Accounting Policies (continued)

Non-controlling Interest

The Company consolidates its 80% equity interest in Harrisburg Holdings and reports the remaining 20% interest by the third party as a non-controlling interest on the consolidated balance sheet. At September 30, 2016 and 2015, the non-controlling equity interest was \$91,813 and \$0, respectively. The net income or net loss of Harrisburg Holdings is allocated based on the ownership percentages on the consolidated statement of income. For the nine months ended September 30, 2016 and 2015, Harrisburg Holdings had net losses of \$1,264,310 and \$0, respectively, resulting in net loss attributable to the non-controlling interest for the nine months ended September 30, 2016 and 2015 of \$252,862 and \$0, respectively.

Cash and Cash Equivalents

Cash and cash equivalents represent cash and short-term highly liquid investments with original maturities of three months or less. The Company places its cash and cash equivalents with high credit quality financial institutions that may exceed federally insured amounts at times.

Restricted Cash

The self-storage facilities hold escrow funds in money market trust accounts for real estate taxes, insurance and replacement reserves disbursements to be paid when due, pursuant to the terms of the bank financing agreement.

Inventory

Inventory consists of purchased finished goods held by RSS and is valued at the lower of cost or market value using the first-in, first out (FIFO) valuation method.

Self-Storage Properties

Self-storage properties are carried at historical cost less accumulated depreciation and any impairment losses. Major replacements and betterments, which improve or extend the life of an asset, are capitalized. Expenditures for ordinary repairs and maintenance are expensed as incurred and are included in self-storage cost of operation. Estimated depreciable lives of self-storage properties are determined by considering the age and other indicators about the condition of the assets at their respective dates of acquisition, resulting in an estimated useful life for assets within each category. All self-storage property assets are depreciated using the straight-line method. Buildings and improvements are depreciated over estimated useful lives of 39 years.

When a self-storage property is acquired in a business combination, the purchase price of the acquired self-storage property is allocated to land, buildings and improvements, furniture and equipment, customer in-place leases, assumed real estate leasehold interests, other assets acquired and liabilities assumed, based on the estimated fair value of each component. When a portfolio of self-storage properties is acquired, the purchase price is allocated to the individual self-storage properties based on the fair value determined using an income approach with appropriate risk-adjusted capitalization rates, which take into account the relative size, age and location of the individual self-storage properties.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Self-Storage Properties (continued)

These items consist of the following at:

	September 30,	
	2016	2015
Land	\$ 4,870,000	\$ -
Building	30,193,771	-
	35,063,771	-
Less: Accumulated Depreciation	(354,841)	-
	\$ 34,708,930	\$ -

Depreciation expense was \$354,841 and \$0 for the nine months ended September 30, 2016 and 2015, respectively.

Customer In-place Leases

In allocating the purchase price for an acquisition accounted for as a business combination, the Company determines whether the acquisition includes intangible assets. The Company allocates a portion of the purchase price to an intangible asset attributed to the value of customer in-place leases. This intangible asset is amortized to expense using the straight-line method over 12 months, the estimated average rental period for our customers. Substantially all of the leases in place at acquired properties are at market rates, as the leases are month-to-month contracts. The Company evaluated this in the current year acquisitions and determined this amount was immaterial.

Acquisition Costs, Organizational and Offering Expenses

The Company incurs title, legal and consulting fees, and other costs associated with the completion of self-storage property acquisitions. Such costs are included in acquisition costs in the accompanying statements of income in the period in which they are incurred. The Company also incurs legal fees and filing fees in connection with the organization of the Company and its subsidiaries, which are charged to expense in the period incurred.

Commissions, legal fees and other costs that are directly associated with equity offerings are capitalized as deferred offering costs, pending a determination of the success of the offering. Deferred offering costs related to successful offerings are charged to equity in the period it is determined that the offering was successful. Deferred offering costs related to unsuccessful offerings are recorded as expense in the period when it is determined that the offering is unsuccessful. Other costs related to equity offerings, such as audit fees associated with the operations of our self-storage properties for periods preceding the related contribution and formation transactions, are charged to expense in the period incurred.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment is carried at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method as follows: buildings and improvements 39 years; machinery and equipment 7 years. Repairs and maintenance costs are expensed as incurred.

These items consist of the following at:

	September 30,	
	2016	2015
Machinery and equipment	\$ 36,580	\$ 11,752
Less: Accumulated Depreciation	(12,613)	(11,239)
	\$ 23,967	\$ 513

Depreciation expense was \$861 and \$1,554 for the nine months ended September 30, 2016 and 2015, respectively.

Investments in Partnerships / LLC

The Company uses the equity method of accounting for investments in equity securities in which it has more than a 20% interest, but does not have a controlling interest and is not the primary beneficiary. The Company uses the cost method of accounting for investments in equity securities in which it has a less than 20% equity interest and virtually no influence over the investee's operations. Investments owned over 50% with a controlling interest are consolidated within these financial statements.

Evaluation of Long Lived Assets

Long-lived assets are assessed for recoverability on an ongoing basis. In evaluating the fair value and future benefits of long-lived assets, their carrying value would be reduced by the excess, if any, of the long-lived assets' carrying value over management's estimate of the anticipated undiscounted future net cash flows of the related long-lived assets.

Fair Value of Financial Instruments

The fair values of cash, other current assets, and accounts payable and accrued expenses approximate their carrying values because of the short maturity of these financial instruments.

Revenue and Expense Recognition

Management has determined that all of our leases are operating leases. Substantially all leases may be terminated on a month-to-month basis and rental income is recognized ratably over the lease term using the straight-line method. Rents received in advance are deferred and recognized on a straight-line basis over the related lease term associated with the prepayment. Promotional discounts and other incentives are recognized as a reduction to rental income over the applicable lease term. Other property-related revenue consists of ancillary revenues such as tenant access fees for insurance and commissions and sales of storage supplies which are recognized in the period earned.

Property tax expense is based on actual amounts billed, or estimates of anticipated bills or assessments that have not yet been received from the taxing authorities. Cost of operations, general and administrative expense, interest expense, and advertising expenditures are expensed as incurred.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Stock-Based Compensation

The Company accounts for stock and stock options issued for services and compensation to employees under the fair value method. For non-employees, the fair market value of the Company's stock is measured on the date of stock issuance or the date an option/warrant is granted. The Company determines the fair market value of the options issued under the Black-Scholes Pricing Model. The Company follows the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 718-10, "Compensation – Stock Compensation," which establishes accounting for equity instruments exchanged for employee services. Under the provisions of FASB ASC 718-10, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the requisite service period (generally the vesting period of the equity grant).

Income Taxes

The Company utilizes FASB ASC 740-10, "Income Taxes", which requires an asset and liability to financial accounting and reporting for income taxes. The difference between the financial statement and tax basis of assets and liabilities is determined annually. Deferred income tax assets and liabilities are computed for those temporary differences that have future tax consequences using the current enacted tax laws and rates that apply to the periods in which they are expected to affect taxable income. In some situations, FASB ASC 740-10 permits the recognition of expected benefits of utilizing net operating loss and tax credit carry-forwards. Valuation allowances are established based upon management's estimate, if necessary. Income tax expense (benefit) is the current tax payable or refund for the period plus or minus the net change in the deferred tax assets and liabilities.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial statements. These estimates are subjective in nature, involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Subsequent Events Evaluation

The Company has evaluated subsequent events through September 20, 2017, which is the date these financial statements were available to be issued.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 2. Investment in Security Land and Development Company Limited Partnership

In November 1994, the Company purchased, for \$350,000, a limited partnership interest in Security Land, which owns and operates an office complex. The Company has limited voting rights and is entitled to allocations of the profit and loss of Security Land and operating cash flow distributions, as amended (see below).

Security Land was organized to own and operate two buildings containing approximately 717,000 net rentable square feet consisting of a two-story office building and a connected six-story office tower. The buildings were purchased by Security Land in 1986 and are located on approximately 34.3 acres of land which is also owned by Security Land. The buildings have been occupied by the United States Social Security Administration's Office of Disability and International Operations for approximately 30 years under leases between the United States of America, acting by and through the General Services Administration ("GSA"). Effective November 1, 1994, Security Land and the GSA entered into a nine-year lease for 100% of the building. In March 2003, the General Services Administration agreed to extend the terms of the lease through October 31, 2018. Security Land has received an opinion of the Assistant General Counsel to the GSA that lease payments are not subject to annual appropriation by the United States Congress and the obligations to make such payments are unconditional general obligations of the United States Government.

In April 2003, the Company entered into an amendment to the Security Land partnership agreement. The amendment provides for the distribution of the net proceeds of a loan to Security Land to the Company and the non-Company partners on a 50/50 basis, provided that such allocation would result in a minimum distribution to the Company of \$39,000,000 (a "qualified financing"). This qualified financing was obtained in June 2003 (see below). The amendment also provides that, following the qualified financing, the Company will be entitled to (i) 95% of Security Land's distributions of cash flow until it has received \$2,000,000 of such distributions, and thereafter 50% of such distributions, and (ii) once it has received \$2,000,000 of cash flow distributions, it will receive an \$180,000 annual management fee from Security Land. The foregoing percentages are inclusive of the Company's interest as a limited partner in 1500 Woodlawn Limited Partnership, the general partner of Security Land.

The refinancing of Security Land's property at 1500 Woodlawn Drive, Woodlawn, Maryland closed on June 24, 2003. US SSA LLC (a single purpose entity owned by Security Land) borrowed \$98,500,000 through a public debt issue underwritten by CTL Capital, LLC. Proceeds of the refinancing were used to repay the outstanding balance of Security Land's 1994 indebtedness, to establish reserves to make capital improvements to the property, to provide reserves required by the new debt, to pay costs and expenses related to issuing the debt, to pay fees related to the lease extension with the GSA and the financing, and to make a distribution to the partners of Security Land. The debt is for a term of 15.3 years maturing October 31, 2018 at which time the loan will have been paid down to a balance of \$10,000,000.

Security Land also obtained residual value insurance for approximately \$10,000,000. The interest cost of the financing is 4.63%. The financing is non-recourse to the Company.

For the nine months ended September 30, 2016 and 2015, the Company's income from its equity investment in Security Land was \$2,678,563 and \$2,975,082, respectively. These funds, however, are principally committed to the amortization of the outstanding principal balance on Security Land's real estate mortgage. Security Land does not currently provide liquidity to the Company. However, in September 2015, Security Land remitted \$18,343 to the State of Maryland for Regency's allocable portion of non-resident partner withholding taxes, classified as a distribution from this investment to the Company.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 2. Investment in Security Land and Development Company Limited Partnership (continued)

Summarized Balance Sheet information for Security Land is as follows:

	As of September 30,	
	2016	2015
Balance Sheet Data		
Cash and cash equivalents	\$ 56,232	\$ 369,630
Restricted cash	2,223,538	2,781,117
Real estate, net	8,230,658	10,717,803
Deferred charges, net	963,684	1,578,922
Receivables and other assets	2,238,238	1,259,304
Total Assets	\$ 13,712,350	\$ 16,706,776
Accounts payable and accrued expenses	\$ 229,852	\$ -
Project note payable	26,512,526	33,582,205
Accrued interest payable	51,191	64,842
Total Liabilities	\$ 26,793,569	\$ 33,647,047
Partners' capital (deficit):		
Total Partners' Capital (Deficit)	13,081,219)	(16,940,271)
Total Liabilities and Partner's Capital (Deficit)	\$ 13,712,350	\$ 16,706,776

Summarized Statements of Income information for Security Land is as follows:

	For the Nine Months Ended September 30,	
	2016	2015
Revenues	\$ 10,406,567	\$ 10,453,051
Expenses	5,046,655	4,781,013
Net income from operations	5,359,912	5,672,038
Other expenses	(2,540,373)	(2,540,373)
Net income	\$ 2,819,539	\$ 3,131,665

Effective November 30, 2000 the Company invested \$10,000 for a 5% limited partnership interest in 1500 Woodlawn Limited Partnership, the general partner of Security Land. The Company recognized income of \$7,049 and \$7,829 for the nine months ended September 30, 2016 and 2015, respectively, from this investment. In September 2015, Security Land remitted \$12,388 to the State of Maryland for Regency's allocable portion of non-resident partner withholding taxes, classified as a distribution from this investment to the Company.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 3. Investment in MESC Capital LLC

On April 30, 2004, the Company, through a newly-formed, wholly-owned subsidiary called Regency Power Corporation, a Delaware corporation, acquired a 50% membership interest in MESC Capital, a Delaware limited liability company, from DTE Mobile, LLC (“DTE Mobile”), pursuant to an Assignment and Assumption Agreement dated as of April 30, 2004. The purchase price for the 50% membership interest was \$3,000,000 and was funded from Regency’s working capital. The terms of the Assignment and Assumption Agreement were negotiated on an arm’s length basis between Regency and DTE Mobile. DTE Mobile, which is owned by an unregulated subsidiary of a large energy company that has significant experience in owning, managing and operating electric generation and on-site energy facilities, owns the other 50% membership interest in MESC Capital.

MESC Capital was formed to acquire all of the membership interests in Mobile Energy. Mobile Energy owns an on-site energy facility that supplies steam and electricity to a Kimberly-Clark tissue mill in Mobile, Alabama pursuant to an Amended and Restated Tissue Mill and Energy Services and Site Coordination Agreement that expires on or about April 30, 2019. The acquisition of Mobile Energy was also consummated on April 30, 2004 pursuant to a Membership Interest Purchase Agreement, dated as of January 30, 2004, between MESC Capital and Mobile Energy Services Holdings, Inc. The purchase price under the Membership Interest Purchase Agreement, after certain pre-closing adjustments, was \$33,600,000, and is subject to certain post-closing adjustments. The purchase price and working capital reserves were funded by the issuance of \$28,500,000 of non-recourse debt, a total equity contribution by MESC Capital of \$8,600,290, \$4,300,145 of which was funded by Regency Power and \$4,300,145 of which was funded by DTE Mobile, and a credit of \$1,000,000 on account of existing and continuing tax-exempt indebtedness of Mobile Energy. The terms of the Membership Interest Purchase Agreement were negotiated on an arms'-length basis between MESC Capital and Mobile Energy. The Company did not participate in negotiations with respect to the Membership Interest Purchase Agreement.

The \$28,500,000 acquisition indebtedness was obtained from Allied Irish Banks, P.L.C., which may assign or participate the loan in accordance with the terms of the loan agreement. The loan will be amortized over the fifteen-year term, and is currently held by Bank of America. In connection with the acquisition of the 50% membership interest in MESC Capital, Regency Power and DTE Mobile entered into an Operating Agreement, dated April 30, 2004, which sets forth their respective rights and obligations as members of MESC Capital as well as the duties and authority of DTE Mobile as the managing member of MESC Capital. Under the Operating Agreement, Regency Power will receive 50% of all distributions. Neither Regency Power nor DTE Mobile is obligated to contribute additional capital, or loan or otherwise advance funds, to MESC Capital, and neither member can sell or transfer its interest in MESC Capital without the consent of the other and without first complying with a right of first offer in favor of the non-selling member.

The Company accounts for the Investment in Partnerships using the equity method, whereby the carrying value of these investments are increased or decreased by the Company's allocable share of book income or loss. The Company recognized income of \$2,254,738 and \$1,474,365 for the nine months ended September 30, 2016 and 2015, respectively, from this investment.

On April 24, 2017, Kimberly-Clark notified MESC Capital of its intention to not renew the lease.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 3. Investment in MESC Capital LLC (continued)

Summarized Balance Sheet information for MESC Capital LLC is as follows:

	As of September 30:	
	2016	2015
Balance Sheet Data		
Cash and cash equivalents	\$ 954,460	\$ 1,093,370
Restricted cash	6,562,479	6,204,625
Trade receivable	3,067,661	3,152,773
Current portion of net investment in direct financing lease	2,621,712	2,422,315
Inventory	4,072,062	3,902,050
Prepaid expenses and other current assets	267,100	278,312
Total current assets	17,545,474	17,053,445
Debt issuance costs	85,254	154,763
Property, plant and equipment, net	14,029	21,599
Investment in direct financing lease, net of current portion	4,569,590	7,191,302
Total assets	\$ 22,214,347	\$ 24,421,109
Accounts payable	\$ 181,841	\$ 907,392
Accounts payable to related parties	545,325	-
Accrued liabilities	161,828	160,255
Current portion of long-term debt	2,801,550	2,587,800
Total current liabilities	3,690,544	3,655,447
Long-term debt, net of current portion	6,229,750	9,031,300
Total liabilities	9,920,294	12,686,747
Members' equity	12,294,053	11,734,362
Total liabilities and members' equity	\$ 22,214,347	\$ 24,421,109

Summarized Income Statement information for MESC Capital LLC is as follows:

	For the Nine Months Ended	
	2016	2015
Revenues	\$ 11,839,860	\$ 12,015,728
Expenses	7,330,381	9,066,998
Income from operations	4,509,479	2,948,730
Other income (expense)	-	-
Net income	\$ 4,509,479	\$ 2,948,730

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 4. Self-Storage Property Acquisition and Dispositions

On April 6, 2016, the Company formed a new, wholly owned subsidiary called RSS Investments LLC (“RSS”), a Delaware limited liability company. On April 18, 2016, RSS entered into a joint-venture, acquiring 97% of the outstanding preferred shares and 80% of the outstanding common shares of SSCP Harrisburg Holdings, LLC (“Harrisburg Holdings”). Harrisburg Holdings is the sole member of SSCP Harrisburg Intermediate Holdings, LLC (“Intermediate Holdings”). Also on this date, Intermediate Holdings completed its acquisition of a portfolio of five stand-alone self-storage facilities in the Harrisburg, Pennsylvania vicinity, for a total purchase price of \$35 million. The facilities comprise approximately 330,000 square feet of net rentable space consisting of in excess of 2,500 climate and non-climate controlled storage units.

RSS funded the acquisition with proceeds from Regency’s private stock offering (See Note 14) and Regency’s working capital. The purchase price and related transaction expenses were financed with an \$11,230,744 acquisition cash capital contribution by RSS to its joint-venture purchaser and a \$25,250,000 non-recourse debt financing with a ten-year term, 4.95% fixed interest rate, and 30-year amortization commencing after a four-year interest only period. The joint-venture terms provide the Company with a 7.5% per annum preferred return on its initial capital contribution, and a 7.5% per annum preferred return to SSCP Management, LLC, the minority joint-venture partner, on its base contribution amount of \$350,000. After satisfaction of the preference amounts, 80% of surplus cash flow is allocated to the Company and 20% to SSCP Management, LLC. The facilities will be managed on a day-to-day basis by a newly-engaged third party property management company, who is an affiliate of SSCP Management, LLC.

Regency accounts for its Investment in Harrisburg Holdings on a consolidated basis, reflecting the minority joint-venture partner’s equity and share of net income or loss within the non-controlling interest accounts. The fair value of the purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values. The following table summarizes the preliminary estimates of the fair value of identifiable assets acquired and liabilities assumed in the acquisition and the resulting gain on acquisition.

	Preliminary Estimates of Acquisition Date Fair Value
Land	\$ 4,870,000
Building and improvements	30,193,771
Property, plant and equipment, net	<u>35,063,771</u>
Inventory	3,668
Prepaid expenses and other current assets	1,830
Assets acquired	<u>35,069,269</u>
Accounts payable and accrued liabilities	(58,973)
Tenant security deposits	(10,296)
Liabilities acquired	<u>(69,269)</u>
Net assets acquired over liabilities acquired	35,000,000
Total purchase price	<u>\$ 35,000,000</u>

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 5. Serial Preferred Stock

At September 30, 2016 and December 31, 2015, the Company had 2,000,000 authorized shares of \$0.10 par value Series A preferred stock; none were issued or outstanding.

On October 19, 2009, the Company redeemed all outstanding shares of its 7% Cumulative Contingent Convertible, Junior Preferred Stock, \$10, Series D, \$0.10 par value, issued in 1992, (“the Series D Preferred Stock”) for \$10.00 per share (\$256,940 in the aggregate for the 25,694 shares of Series D Preferred Stock outstanding). The redemption price was payable upon presentation and surrender by Series D preferred stockholders of their Series D preferred stock certificates in the manner provided in the notice of redemption. From and after the redemption effective date in 2009, the Series D Preferred Stock is no longer deemed to be outstanding, and all rights of the holders thereof as stockholders of the Company ceased. As of September 30, 2016 and 2015, the Company has paid \$0 and \$235,550, respectively, to stockholders for the redemptions. All redemption proceeds were paid in full as of December 31, 2015.

Note 6. Stock Based Compensation

2003 Incentive Stock Plan

Effective as of March 17, 2003, the Company’s Board of Directors and Stockholders approved and adopted the 2003 Stock Incentive Plan (the “2003 Plan”). The 2003 Plan allows the Administrator (as defined in the 2003 Plan), currently the Compensation Committee, to determine the issuance of incentive stock options, non-qualified stock options and restricted stock to eligible employees and outside directors and consultants of the Company. The Company has reserved 500,000 shares of common stock for issuance under the 2003 Plan. The exercise price of any option granted under the 2003 Plan is determined by the Administrator, and no option or award exercise date can exceed ten years from the grant date. On August 13, 2008, the Company’s Board of Directors approved an amendment to the 2003 Plan that increased the total number of authorized shares available from 500,000 to 750,000. All other terms of the Plan remain in full force and effect.

In May 2016, the Company issued a 25,000 non-qualified common stock option award, exercisable at \$9.50 per share with a term of 10 years and which vest and become exercisable over a 5-year period, to a non-independent member of its Board of Directors, in conjunction with a consulting agreement entered into with him. Refer to Note 9, “Related Party Transactions” for additional information about this agreement.

In May 2016, the Compensation Committee authorized the issuance of 10,000 non-qualified common stock options, exercisable at \$9.50 per share, to its new Chief Financial Officer, under the 2003 Plan. The options granted have a term of 10 years and vest and become exercisable over a 5-year period.

Total compensation expense recorded within General and Administrative Expenses in the Consolidated Statements of Income was \$20,032 and \$0, during the nine months ended September 30, 2016 and 2015, respectively. These amounts recognize the vested portion of the requisite grant terms. Future stock-based compensation for these option awards amount to \$96,720. The fair value of the stock options granted during 2016 is estimated as of the date of grant using a Black-Scholes option valuation model which requires highly subjective assumptions including the expected stock price volatility. The fair value of the Company’s stock options was estimated using the following assumptions: 2.45% annual rate of quarterly dividends, U.S. Treasury 10-year risk free rate of 1.75%, expected average life of 10 years, and an expected stock price volatility of 40.87%.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 6. Stock Based Compensation (continued)

2003 Incentive Stock Plan (continued)

In March 2016, a corporate officer exercised 50,000 common stock options with a strike price of \$6.27 nearing expiration, on a cashless basis. Total common shares issued amounted to 20,952.

As of September 30, 2016, 75,000 shares remain available for issuance under the 2003 Plan.

The following is a summary of the status of the Company's options for the nine months ended September 30, 2016:

	Exercise Price Range	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at January 1, 2016	\$ 2.60 - 6.50	205,000	\$ 5.45	2.61
Issued	9.50	35,000	9.50	9.63
Exercised, forfeited or expired	6.27	(50,000)	6.27	-
Outstanding at September 30, 2016	\$ 2.60 - 9.50	190,000	\$ 5.98	4.18
Vested and Exercisable at September 30, 2016	\$ 2.60 - 6.50	155,000	\$ 5.18	2.95

Note 7. Income Taxes

As referred to in Note 1, the Company accounts for income taxes under FASB ASC 740-10, "Income Taxes". The deferred taxes are the result of long-term temporary differences between financial reporting and tax reporting for depreciation, earnings from the Company's partnership investment in Security Land and the recognition of income tax carry-forward items.

The Company files consolidated income tax returns with its wholly owned subsidiaries. As of December 31, 2013, for regular federal and state income tax purposes, the Company has utilized all of its net operating loss carry-forwards (NOLs). The Company believes it is no longer subject to income tax examinations for years prior to 2013 by the respective taxing authorities. In addition, net operating losses arising from prior years are also subject to examination at the time that they are utilized in future years.

The Company and the general partner of Security Land are in disagreement as to the manner in which taxable income of Security Land is to be allocated pursuant to the partnership agreement and applicable law, and for years 2004 through 2015, the Company has reported taxable income (loss) from Security Land in a manner it believes is proper, but which was different than the manner reported by Security Land. An investigation or other action by the applicable tax authorities to resolve this difference could have an adverse impact on the Company's operations and financial results.

The Company's 2014 tax return has recently been selected for examination by the Internal Revenue Service ("Service").

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 7. Income Taxes (continued)

To safeguard itself from any possible negative impact, in February 2016, the Company purchased an insurance policy and binder to insure against the negative tax consequences should any arise from the disagreement with Security Land regarding reported taxable income allocations (See Notes 3 and 10). The Company paid \$633,900 for the policy and binder which provide coverage of up to \$10 million over the next seven years in the event the IRS or a state taxing authority were to investigate and reject the Company's tax positions taken. The policy is subject to certain limitations, exclusions and retentions.

For the nine months ended September 30, 2016 and 2015, the Company has recorded tax (benefit) expense of \$(70,674) and \$649,369, respectively, including \$146,558 and \$111,360, respectively, for state income taxes. The Company's applicable statutory tax rates are 34% and 6.5% for federal and state tax purposes. The reconciliation of the statutory effective tax rate for the nine months ended September 30, is as follows:

	2016	2015
Expense related to income before income taxes	\$ 662,391	\$ 1,225,691
State taxes, net of federal benefit	146,558	111,360
Permanent differences	(832,632)	(725,538)
True up of prior year tax expense	(46,991)	37,856
Total income tax (benefit) expense	<u>\$ (70,674)</u>	<u>\$ 649,369</u>

Note 8. Employment Agreements

During 2016 and 2015, the Company maintains an employment agreement with its Chief Executive Officer, Laurence S. Levy, the 100% owner of Royalty Management, Inc. (Royalty Management), the entity that controls the Company's majority shareholder, Royalty Holdings, LLC (Royalty). Mr. Levy earns a base annual salary, SEP IRA contributions and expense reimbursements. The employment agreement with Mr. Levy has been continued subsequent to the balance sheet date.

The Company's Chief Financial Officer, Marc H. Baldinger, did not have an employment agreement with the Company. Mr. Baldinger earned a base salary, SEP IRA contributions and expense reimbursements. Effective March 2016, Mr. Baldinger resigned from this position.

Effective January 1, 2015, a 3% increase in base salaries for the Company's CEO and CFO was approved by the Board of Directors.

Effective January 1, 2016, a 3% increase in base salaries for all employees was approved by the Board of Directors.

Note 9. Related Party Transactions

Pursuant to a License Agreement entered into in March 2003, Royalty Management, Inc., which is wholly-owned by Laurence Levy, the Company's CEO and President, provides New York City office space, office supplies and services to the Company for \$126,000 per year. This License Agreement was terminated effective September 30, 2015, at which time Regency began paying the monthly New York City office rent directly to the landlord. During the nine months ended September 30, 2015, Regency expensed \$94,500 for this related party License Agreement.

Effective June 1, 2012, the Board of Directors authorized the Company to compensate each Board director an annual fee of \$20,000, payable \$5,000 quarterly, in arrears, for each fiscal quarter served. Subsequent annual 3% increases have been approved through 2016.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 9. Related Party Transactions (continued)

During the nine months ended September 30, 2016 and 2015, the Company incurred directors' fees of \$32,733 and \$15,909, respectively, for services rendered. As of September 30, 2016 and 2015, directors' fees of \$0 and \$5,303, respectively, were outstanding.

During 2012, the Company entered into a month to month sub-lease rental agreement with an entity 100% owned by its CFO. Pursuant to the terms of the agreement, monthly sub-lease rental income to the Company was \$500, effective January 1, 2012. Sub-lease rental income from this related party was \$1,500 and \$4,500 for the nine months ended September 30, 2016 and 2015, respectively. In March 2016, the Company terminated the sub-lease rental agreement with the entity, at which time, management determined the \$21,000 outstanding receivable balance to be uncollectible and charged it to expense.

In May 2016, the Company entered into a consulting agreement with a non-independent member of its Board of Directors, to provide consulting, financial analyses, and due diligence services for any new potential investment available to the Company, and ongoing financial monitoring of existing investments. Terms of the agreement include an initial fee of \$7,500 and a fee of \$7,200 each month thereafter. In addition, the agreement called for a 25,000 non-qualified common stock option award, exercisable at \$9.50 per share with a term of 10 years and a vesting term of 5,000 options per year over a 5-year period. The Company may terminate the agreement at any time for cause; the consultant may terminate the agreement at will. The fair value of the options granted was \$83,400. The options were valued using the Black-Scholes pricing model (See Note 6). The value of the vested portion of the requisite grant term amounted to \$14,309 for the period ended September 30, 2016. In addition, \$36,300 was paid to the consultant under the terms of the agreement through September 30, 2016.

Pursuant to the Property Management Agreement entered into with the SSCP Acquisition, SSCP must pay 5% of the monthly gross receipts as a management fee to an entity wholly-owned by the non-controlling equity interest. The expense during the nine months ended September 30, 2016 was \$53,374. Of this amount, \$13,876 is included in accounts payable and accrued expenses as of September 30, 2016.

Note 10. Contingencies, Risks, and Uncertainties

The Company is subject to numerous contingencies, risks and uncertainties including, but not limited to, the following that could have a severe impact on the Company:

- (i) A default in the Lease or sudden catastrophe to the Security West Building from uninsured acts of God or war could have a materially adverse impact upon the Company's investment in Security Land and Development Company Limited Partnership and, therefore, its financial position and results of operations (See Note 2).

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 10. Contingencies, Risks, and Uncertainties (continued)

(ii) The Company had significant tax loss and credit carry-forwards and no assurance can be provided that the Internal Revenue Service would not attempt to limit or disallow altogether the Company's use, retroactively and/or prospectively, of such carry-forwards, due to ownership changes or any other reason. The disallowance of the utilization of the Company's net operating losses would severely impact the Company's financial position and results of operations due to the significant amounts of taxable income (generated by the Company's investment in Security Land) that has in the past been offset by the Company's net operating loss carry-forwards (See Note 7).

(iii) Royalty, an affiliate of the company's management, beneficially owns approximately 60% of the Company's common stock. As a result, Royalty has the ability to control the outcome of all matters requiring shareholder approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all of the Company's assets.

(iv) There are many public and private companies that are also searching for operating businesses and other business opportunities as potential acquisition or merger candidates. The Company will be in direct competition with these other companies in its search for business opportunities. Many of these entities have significantly greater financial and personnel resources than the Company.

(v) The Company and the general partner of Security Land are in disagreement as to the manner in which taxable income of Security Land is to be allocated pursuant to the partnership agreement and applicable law, and for years 2004 through 2015, the Company reported taxable income (loss) from Security Land in a manner the Company believes is proper, but which was different than the manner reported by Security Land (See Note 7). This may result in an investigation or other action by the applicable tax authorities and any action taken by tax authorities to resolve this difference could have an adverse impact on the Company's operations and financial results. In February 2016, the Company obtained an insurance policy to protect against such losses, however, it may not be sufficient under all circumstances to cover all potential losses to the Company in the event of any such adverse determinations.

(vi) In September 2016, the Company received an Internal Revenue Service letter indicating its 2014 Federal Form 1120 was selected for examination. Management has recently submitted the initial documentation requested.

(vii) On April 24, 2017, Kimberly-Clark notified MESC Capital of its intention to not renew its lease.

Note 11. Lease Commitments

In January 2012, Regency's Florida office relocated and entered into a new, four-year lease agreement, for a 1,365 square foot space. Minimum lease payments under this agreement were \$26,754 per year. A rent concession had been granted to waive the first and last five months' rent, provided the lease terms have not been breached. As a result, minimum lease payments for each year 1 and 4 amounted to \$15,607 and for years 2 and 3, \$26,754. In addition, the Company was responsible to pay the tenant's share of operating expenses that are estimated to be \$6.50 per square foot on an annualized basis.

In September 2015, the Florida office lease was extended for an additional five years. Per the terms of this First Lease Amendment, base rental payments of \$26,754, remain the same for 2016, until January 2017 through December 2020, at which time annual base rental payments will increase by the prior year's Consumer Price Index percentage adjustments.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 11. Lease Commitments (continued)

In April 2016, the Board of Directors concluded it would be cost-effective to close the Florida office location. Management began negotiations with the landlord for an early release of the office lease term. A settlement of \$7,716, plus loss of its \$2,500 security deposit held by the landlord, was entered into effective October 1, 2016, thereby releasing Regency from any remaining lease obligations or claims for the Florida location.

In addition, as discussed in Note 9, during 2012, the Company entered into a month to month sub-lease rental agreement with an entity 100% owned by its CFO. Pursuant to the terms of the agreement, monthly sub-lease rental income to the Company will be \$500, effective January 1, 2012. Sub-lease rental income from this related party was \$1,500 and \$4,500 for the nine months ended September 30, 2016 and 2015. In March 2016, the Company terminated the sub-lease rental agreement with the entity, at which time, management determined the \$21,000 outstanding receivable balance to be uncollectible and charged it to expense.

In January 2016, Regency paid a \$201,329 security deposit and entered into a new, seven-year office lease agreement, for a 4,081 square foot space for its New York City location. Base rental payments under this agreement are \$74 per square foot per year, with a 1.75% fixed annual escalation. In addition, the Company is responsible to pay the tenant's share of real estate tax increases above the 2016/2017 base year and electricity usage. A rent concession has been granted to waive the first three months' rent. On the third anniversary of rent commencement, and provided the Company is not in default of any rental obligations, the landlord agrees to reduce the security deposit to six months' base rent, or approximately \$151,000. The lease also contains an early termination clause which is effective after five years, with proper notice and payment of an early termination fee. The office relocated in May 2016, the first month of the lease term.

Rent expense was \$180,109 and \$16,838 for the nine months ended September 30, 2016 and 2015.

As of September 30, 2016, future minimum payments under this operating lease are as follows:

<u>For the Year Ended</u>	
2016 (remainder of year)	\$ 75,498
2017	305,515
2018	310,862
2019	316,302
2020	321,837
Thereafter	<u>772,376</u>
Total	\$ <u><u>2,102,390</u></u>

Note 12. License Agreement

In May 2016, a new License Agreement commenced with an unrelated entity which provides the use of leased space within the Company's New York City office, for \$8,833 per month, plus monthly office service fees, through June 2017. Annual one-year renewal periods are available, with license and service fee increases of 2.25% and 2.5%, respectively, until the expiration of the office Lease.

License fee income and related service fees for the nine months ended September 30, 2016 was \$44,189.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 13. Simplified Employee Pension- Individual Retirement Account (SEP-IRA)

The Company adopted a SEP-IRA Plan in 2004. During the nine months ended September 30, 2016 and 2015, the Company expensed contributions of \$97,558 and \$72,293, respectively, to the SEP-IRA Plan. The SEP-IRA Plan covers all employees who receive compensation from the Company during the year. Employer contributions are discretionary and determined annually. In addition, the SEP-IRA Plan allows participants to make elective deferral contributions through payroll deductions.

Note 14. Private Offering of Stock

On March 16, 2016, the Company commenced a private stock offering of up to 1,212,121 shares of common stock at a purchase price of \$8.25 per share, to its shareholders of record as of January 22, 2016, who are accredited investors as defined in Rule 501 of Regulation D under the Securities Act of 1933. The offering, originally set to expire on April 7, 2016, was extended to May 12, 2016. At the close of the offering, 1,078,633 common shares were sold for total gross proceeds raised of \$8,898,722. These funds were used in the Harrisburg Holdings acquisition (See Note 4).

Note 15. Dividends

In September 2013, the Board of Directors adopted a Dividend Policy whereby the Board expects to declare a total annual dividend to common shareholders of \$0.20 per share, to be paid in equal, quarterly installments of \$0.05 per share, provided that the determination to pay any cash dividends for any quarterly period will be made at the applicable time by the Board, in the Board's sole discretion, in compliance with the requirements of applicable law, and with consideration of the Company's future earnings and financial condition and other factors as may be deemed appropriate for consideration by the Board. In September 2014, the Board amended the Policy and increased the total annual dividend to common shareholders to \$0.22 per share, to be paid in equal, quarterly installments of \$0.055 per share. In September 2015, the Board again amended the Policy and increased the total annual dividend to common shareholders to \$0.235 per share, to be paid in equal, quarterly installments of \$0.05875 per share. The Dividend Policy will remain in effect until the Board determines, in its sole discretion, that it is in the best interests of the Company and its common shareholders to terminate the Dividend Policy.

Dividends have been declared and paid quarterly pursuant to the above from September 2013 through June 2016.

In September 2016, the Board of Directors amended its Dividend Policy to increase the total annual dividend to common shareholders by 3.8%, or \$0.244 per common share. At the same time, the Board declared a quarterly \$0.061 per share of issued and outstanding common stock cash dividend to holders of record as of the close of trading on September 30, 2016, totaling \$291,467, payable on October 7, 2016. The dividend was paid in October 2016.

Regency Affiliates, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 16. Mortgage Note Payable

As disclosed in Note 4, on April 18, 2016, the Company, through its five self storage properties, obtained a \$25,250,000 bank note to fund the acquisition. The note is a non-recourse debt financing with a ten year term, 4.95% fixed interest rate, and has a maturity date of May 6, 2026. The note is guaranteed by the owners of SSCP and is secured by all assets of the Company (\$35,582,015 at September 30, 2016). The only amount due during the first four years of the note is interest. The Company paid \$126,250 in fees for underwriting of the note. These were recorded as a debt discount and are amortized over the life of the agreement. Amortization expense of debt discount was \$5,260 for the nine month period ended September 30, 2016.

Under the terms of this agreement Harrisburg Holdings is required to meet and maintain certain financial covenants. The covenant for the nine months ended September 30, 2016 is:

Minimum Debt Service Coverage Ratio	1.45 to 1.00	Actual Debt Service Coverage Ratio
	1.70 to 1.00	

Future payments due under the note (gross of debt discount) are as follows for the years ended December 31:

2016 (remainder of year)	\$	-
2017		-
2018		-
2019		-
2020		248,531
Thereafter		<u>25,001,469</u>
Total	\$	<u><u>25,250,000</u></u>

Note 17. Subsequent Events

Subsequent to September 30, 2016 through the date of this report, the Company received \$2,850,000 in distributions from its investment in MESC.

In December 2016, the Board of Directors declared a quarterly \$0.061 per share of issued and outstanding common stock cash dividend to holders of record as of the close of trading on December 30, 2016, totaling \$280,716, payable on January 6, 2017. The dividend was paid on January 6, 2017.

Effective January 1, 2017, the Board of Directors approved a 3% base salary increase for all employees.

In March 2017, the Board of Directors declared a quarterly \$0.061 per share of issued and outstanding common stock cash dividend to holders of record as of the close of trading on March 31, 2017, totaling \$291,467, payable on April 6, 2017. The dividend was paid on April 7, 2017.

On April 24, 2017, Kimberly-Clark, the lessee of a power plant that the Company holds a 50% interest in, announced that upon the termination of their lease on April 30, 2019, they would not be renewing their contract. The Company is currently in the process of finding other potential lessees for the power facility.

In June 2017, the Board of Directors declared a quarterly \$0.061 per share of issued and outstanding common stock cash dividend to holders of record as of the close of trading on June 30, 2017, totaling \$291,467, payable on July 6, 2017. The dividend was paid on July 7, 2017.