THE PMI GROUP, INC.

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the years ended December 31, 2015 and 2014, and the period from October 1, 2013 (emergence from bankruptcy) through December 31, 2013

CONTENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
The PMI Group, Inc.

We have audited the accompanying consolidated statements of financial condition of The PMI Group, Inc. (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years ended December 31, 2015 and 2014, and the period October 1, 2013 (emergence from bankruptcy) to December 31, 2013. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 The PMI Group, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years ended December 31, 2015 and 2014, and the period October 1, 2013 (emergence from bankruptcy) to December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, on July 25, 2013, the Bankruptcy Court entered an order confirming the plan of reorganization, which became effective on October 1, 2013. Accordingly, the accompanying consolidated financial statements have been prepared in conformity with Accounting Standards Codification 852-10, *Reorganizations*, for The PMI Group, Inc. as a new entity with assets, liabilities and equity having carrying amounts not comparable with prior periods as described in Note 2.

Burr Pilger Mayer, Inc.

Walnut Creek, California
February 29, 2016

THE PMI GROUP, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

December 31, 2015 and 2014

(In thousands, except share data)

	2015	2014
ASSETS		
Cash	$ 3,089	$ 2,295
Restricted cash	1,212	2,916
Prepaid expenses and other current assets	23	155
	4,324	5,366
Deferred tax assets, net (Note 8)	-	-
Other assets	411	452
Total assets	$ 4,735	$ 5,818
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Term loan, net of debt discount and issuance costs of $1,327	$ 2,817	$ -
Accounts payable and accrued liabilities	89	36
Warrant liability	152	-
Claims liabilities	-	1,700
Total liabilities	3,058	1,736
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, $0.01 par value; 10,000,000 shares authorized in 2015 and 2014 ; 2,074,441 shares issued and outstanding in 2015 and 2014	21	21
Preferred stock, $0.01 par value; 1,000,000 shares authorized in 2015 and 2014; no shares issued or outstanding in 2015 and 2014	-	-
Additional paid-in capital	7,967	7,967
Accumulated deficit	(6,311)	(3,906)
Total stockholders' equity	1,677	4,082
Total liabilities and stockholders' equity	$ 4,735	$ 5,818

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

THE PMI GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2015 and 2014, and the period from
October 1, 2013 (emergence from bankruptcy) through December 31, 2013

(In thousands, except share data)

	Years Ended December 31, 2015	Years Ended December 31, 2014	For the Period from October 1, 2013 (Emergence from Bankruptcy) through December 31, 2013
Revenue:			
Interest income	$ 3	$ 8	$ 1
Total revenue	3	8	1
Expenses:			
General, administrative, and other expenses	2,114	3,680	235
Interest expense	294	-	-
Total expenses	2,408	3,680	235
Net loss	$ (2,405)	$ (3,672)	$ (234)

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

THE PMI GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2015 and 2014, and the period from October 1, 2013 (emergence from bankruptcy) through December 31, 2013

(In thousands, except share data)

	Common Stock		Preferred Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance, October 1, 2013 (emergence from bankruptcy)	2,074,441	$ 21	-	$ -	$ 7,967	$ -	$ 7,988
Net loss	-	-	-	-	-	(234)	(234)
Balance, December 31, 2013	2,074,441	21	-	-	7,967	(234)	7,754
Net loss	-	-	-	-	-	(3,672)	(3,672)
Balance, December 31, 2014	2,074,441	21	-	-	7,967	(3,906)	4,082
Net loss	-	-	-	-	-	(2,405)	(2,405)
Balance, December 31, 2015	2,074,441	$ 21	-	$ -	$ 7,967	$ (6,311)	$ 1,677

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

THE PMI GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 and 2014, and the period from October 1, 2013 (emergence from bankruptcy) through December 31, 2013

(In thousands, except share data)

	Years Ended December 31, 2015	Years Ended December 31, 2014	For the Period from October 1, 2013 (Emergence from Bankruptcy) through December 31, 2013
Cash flows from operating activities:			
Net loss	$ (2,405)	$ (3,672)	$ (234)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Amortization of debt discount and issuance costs	150	-	-
Interest expense - paid-in-kind	144	-	-
Foreign currency loss	41	49	-
Fair value changes - warrant liability	25	-	-
Net changes in assets and liabilities:			
Restricted cash	1,704	16,316	168,036
Prepaid expenses and other current assets	132	33	3,316
Other assets	-	(501)	-
Accounts payable and accrued liabilities	53	(1,862)	(2,841)
Payments to claimholders	(1,700)	(16,315)	(168,036)
Net cash (used in) provided by operating activities	(1,856)	(5,952)	241
Cash flows from financing activities:			
Proceeds from term loan	4,000	-	-
Payment of debt issuance costs	(1,350)	-	-
Net cash provided by financing activities	2,650	-	-
Net increase (decrease) in cash	794	(5,952)	241
Cash, beginning of period	2,295	8,247	8,006
Cash, end of period	$ 3,089	$ 2,295	$ 8,247
Supplemental disclosure of non-cash items:			
Issuance of warrants in connection with debt issuance	$ 127	$ -	$ -

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

1. The Company

On November 23, 2011 (the "Petition Date"), The PMI Group, Inc. ("PMI" or the "Company") filed a voluntary petition under chapter 11 of the Bankruptcy Code, thereby commencing case number 11-13730 (the "Chapter 11 Case") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). During the pendency of the bankruptcy proceedings, PMI operated and managed its affairs as a debtor in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code. On July 25, 2013, the Bankruptcy Court entered an order (the "Confirmation Order") confirming the revised First Amended Plan of Reorganization of The PMI Group, Inc. pursuant to Chapter 11 of the United States Bankruptcy Code (the "Plan"), which became effective on October 1, 2013 (the "Effective Date"). Under the Plan, PMI is the disbursing agent (the "Disbursing Agent") and, as such, has authority to (i) effect all actions and execute all agreements, securities, instruments, and other documents necessary to perform its duties under the Plan; (ii) make all distributions contemplated by the Plan; (iii) employ professionals to represent it with respect to its responsibilities; and (iv) exercise such other powers as may be vested in the Disbursing Agent by order of the Bankruptcy Court, pursuant to the Plan, or as deemed by the Disbursing Agent to be necessary and proper to implement the provisions of the Plan. Since the Effective Date, PMI has made distributions in the sum of approximately $188.8 million, to holders of allowed claims (the "Allowed Claims").

On June 15, 2015, the Bankruptcy Court entered an amended order (the "Final Decree") granting a final decree that the bankruptcy case is closed effective May 21, 2015. The Final Decree also states that PMI (i) has complied with all of its obligations regarding the Plan and Confirmation Order, (ii) is fully and finally released and discharged of and from any duties or obligations of any nature with respect to the Plan and Confirmation Order and (iii) has no further responsibilities or obligations in connection with the Plan or Confirmation Order. The Final Decree was effective subject to the final payment of outstanding claims of $1.7 million, which was paid during June 2015. As of December 31, 2015, all allowed claims and bankruptcy related administrative costs and professional fees have been fully paid and no further payments are required.

Cancellation of Common Stock and Issuance of New Shares

In accordance with the Plan, all shares of common stock of PMI outstanding prior to the filing of its Second Amended and Restated Certificate of Incorporation, which was filed on the Effective Date were cancelled. Pursuant to the Plan, each holder of $1,000 in allowed general unsecured claims, other than convenience claimants, received 3 shares of newly issued common stock, par value $0.01 per share, of PMI (the "Common Stock"), with any fractional interests rounded down to the nearest whole share for each $1,000 of allowed general unsecured claims held by such holder. Pursuant to its Second Amended and Restated Certificate of Incorporation, PMI has authorized 10 million shares of Common Stock and one million shares of Preferred Stock with a par value of $0.01. Pursuant to the Plan, PMI issued 2,074,441 shares of Common Stock (OTC Markets: PMIR) on October 24, 2013.

Continued

1. The Company, continued

Consideration of Strategic Alternatives and Corporate Matters

On the Effective Date, PMI emerged from Bankruptcy with a new Board of Directors appointed pursuant to the Plan. Since emergence, PMI has sought to identify and execute strategic alternatives intended to maximize PMI value. In connection with these efforts, PMI is pursuing and exploring a number of options, including, among others, discussions with respect to the sale or financing of PMI's assets and future operations, other potential avenues to raise additional capital including debt, preferred stock or common stock, as well as potential corporate transactions. As of December 31, 2015, PMI has not executed definitive documentation relating to any material transaction other than the BTO Transactions noted below.

BTO Transactions

On August 28, 2015, PMI entered into a series of transactions ("BTO Transactions") in conjunction with the acquisition by BTO PMI Holdings L.P. ("BTO Holdings") of 764,542 common shares from another shareholder, including entry into a Subordinated Loan Agreement with BTO PMI Holdings-NQ, L.P. ("BTO Holdings-NQ") (See Note 5) and the issuance of a Warrant to BTO Holdings-NQ (Collectively, BTO Holdings and BTO Holdings-NQ are referred to as "BTO"). Contemporaneous with the BTO transactions, PMI entered into an Investor Rights Agreement and a Registration Right Agreement with BTO which among other things provides BTO with certain governance rights and rights to demand and/or piggy-back in a registered offering under certain circumstances as defined in the agreements.

2. Summary of Significant Accounting Policies

The accompanying consolidated financial statements of PMI as of and for the years ended December 31, 2015 and 2014, and for the period from October 1, 2013 (emergence from bankruptcy) through December 31, 2013 have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and in accordance with Accounting Standards Codification ("ASC"), as set forth by the Financial Accounting Standards Board ("FASB"). The following is a summary of significant accounting and reporting policies:

Fresh Start Accounting

In connection with its emergence from Chapter 11, PMI applied fresh start accounting as of October 1, 2013 (emergence from bankruptcy) to its consolidated financial statements in accordance with ASC 852, *Reorganization*, as (i) the holders of existing voting shares of PMI issued and outstanding as of the Petition Date received less than 50% of the voting shares of the emerging entity and (ii) the reorganization value of PMI's assets immediately prior to confirmation was less than the post- Petition Date liabilities and allowed claims.

Upon the application of fresh start accounting, PMI allocated the reorganization value to its individual assets based on their estimated fair values. Reorganization value represents the fair value of PMI's assets before considering liabilities at its emergence from bankruptcy. Following the Effective Date, the PMI financial statements began on October 1, 2013 (emergence from bankruptcy), after giving effect to the application of fresh-start accounting.

Continued

2. Summary of Significant Accounting Policies, continued

Fresh Start Accounting, continued

As a result of the adoption of fresh-start accounting, the consolidated financial statements prior to October 1, 2013 (emergence from bankruptcy) are not comparable to the consolidated financial statements after October 1, 2013, because they are, in effect, those of a new entity. SOP 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*, requires that the consolidated financial statements for periods following the Chapter 11 filing through emergence distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, revenues, expenses, realized gains and losses and provisions for losses directly associated with the reorganization and restructuring of the business were recorded in the consolidated financial statements of the Pre-Effective Date Company as of September 30, 2013 as reorganization items. For the Post-Effective Date Company, Restricted Cash and subsequent distributions of cash used for reorganization items are disclosed separately in the consolidated statement of financial condition and the consolidated statement of cash flows, respectively.

As defined in the Plan, Creditor Cash is (a) the cash and cash equivalents available to the Reorganized Debtor on October 1, 2013 (emergence from bankruptcy), plus (b) the cash thereafter received from the Principal Regulated Reinsurance Subsidiaries, plus (c) the tax refund received for tax year 2010 or earlier, less (x) amounts paid for Allowed Administrative Expense Claims, Allowed Professional Compensation Claims, U.S. Trustee Fees, Allowed Indenture Trustee Fees, Allowed Priority Non-Tax Claims, and Allowed Convenience Claims, and less (y) the administrative costs of the bankruptcy estate up to the entry of a final decree.

Upon emergence from bankruptcy, PMI retained approximately $6.6 million to fund its working capital needs and conduct its ongoing operations including the pursuit of its assets and implementation of its business strategy. At the Emergence Date, cash totaling approximately $8.0 million represented all amounts available in PMI's bank accounts, including the value of cash and equivalents for the Reinsurance Subsidiaries realized upon the distribution of these amounts to PMI in connection with the dissolution of these entities. Restricted cash was comprised of the Creditor Cash and the balance for the escrow of the CAA (as defined in Note 4 Other Assets below). Claim liabilities of $186.1 million were recorded based on final agreed Allowed Claims as evidenced by stipulations agreed among the parties, Court orders, and opinions. The receivables relating to tax refunds of $3.3 million and insurance return premiums of $0.2 million were valued at the final collected amount. Accrued liabilities were valued based on allowed administrative and professional claims of approximately $2.7 million and estimated administrative costs and professional fees of $2.0 million anticipated to be incurred up to the entry of a final decree closing the Bankruptcy estate.

Equity was valued at the net assets of PMI after amounts reserved for claims based on Creditor Cash. There were no intangible assets or goodwill recorded as a result of adopting fresh start accounting.

Continued

2. Summary of Significant Accounting Policies, continued

Principles of Consolidation

PMI is the 100% owner of PMI Mortgage Insurance Co. ("MIC"). On August 19, 2011, MIC was placed under formal supervision of the Arizona Department of Insurance ("ADI"). On October 20, 2011, the ADI filed a petition and complaint in the Arizona Superior Court, County of Maricopa (the "Receivership Court") seeking to have MIC placed into interim receivership under full possession and control of the ADI, which was granted that day (the "Possession Order"). On March 14, 2012, the Receivership Court, with the consent of PMI's bankrupt estate, entered an order (the "Receivership Order") appointing the Arizona Insurance Commissioner as Receiver and appointing a Special Deputy Receiver to manage the day-to-day affairs of MIC subject to the continuing oversight of the Receivership Court. MIC is currently subject to the Receivership Order that effects a separation of control between PMI and MIC which, among other things, gives the Receiver exclusive custody and control of MIC's records and assets, including all of MIC's rights to control its operations and those of its subsidiaries. The Receivership Order prohibits PMI (as MIC's stockholder) from transacting any of MIC's business or altering any of MIC's records. In accordance with the applicable accounting standards, when a subsidiary becomes subject to the control of a government, court, administrator, or regulator, deconsolidation of that subsidiary is generally required. The Company has therefore deconsolidated MIC for accounting purposes and eliminated the results of MIC's operations for all periods presented. However, MIC does remain as part of the PMI consolidated tax group. The Company believes they have no responsibilities for liabilities of MIC. Although MIC is currently in rehabilitation, to the extent that MIC is rehabilitated and is released from receivership, the residual interest would belong to PMI.

As of the Effective Date, PMI was the 100% owner of the following principal reinsurance subsidiaries (collectively, the "Reinsurance Subsidiaries"), RIC Transition Co, PRC Transition Co, and PMG Transition Co., (formerly known as Residential Insurance Co., PMI Reinsurance Co., and PMI Mortgage Guaranty Co.), regulated by the State of Arizona whose reinsurance obligations had been previously commuted with the approval of the Receivership Court issued on December 12, 2012. The insurance licenses for these reinsurance subsidiaries were relinquished prior to the Effective Date. The Reinsurance Subsidiaries were dissolved effective March 3, 2014, with the exception of RIC Transition Co. the dissolution of which entity became effective on July 16, 2014.

PMI was the 100% owner of PMI Specialty Assurance Co., which was dissolved effective March 3, 2014 and had no assets. PMI was also the 100% owner of PMI Capital and PMI Capital I, which were dissolved on February 28 and January 18, 2014 respectively. PMI Capital distributed substantially all of its assets (approximately $145,000 in cash) to PMI prior to the Effective Date.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company believes that the estimates used in preparing its consolidated financial statements are reasonable and prudent; however, actual results could differ from those estimates.

Continued

2. **Summary of Significant Accounting Policies**, continued

Cash Equivalents

The Company considers all highly liquid investments with an original maturity date of three months or less at the date of purchase to be cash equivalents. There were no such investments at December 31, 2015 or 2014, as all of our cash was held in checking or savings accounts.

Foreign Currency Transactions

Transaction gains and losses are based on the change in exchange rates between the functional currency and the currency in which the foreign currency transaction is denominated. Transaction gains and losses are generally recognized in earnings in the period in which the exchange rate changes.

Income Taxes

PMI uses the asset and liability method of accounting for income taxes, pursuant to which deferred tax assets and liabilities are recognized with respect to the future tax consequences attributable to (i) differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and (ii) NOL carryforwards ("NOLs") and other tax credit carryforwards. Deferred tax assets and liabilities are calculated applying current income tax rates to taxable income in the years in which those differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in income tax rates is recognized in the results of operations in the period that includes the effective date for the new rates. The ability to realize PMI's deferred tax assets is evaluated quarterly based on a "more-likely-than-not" standard, and to the extent this threshold is not met, a valuation allowance is recorded.

PMI evaluates tax positions taken or expected to be taken in the course of preparing PMI's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions deemed to meet the "more-likely-than-not" threshold of being sustained would be recorded as a tax benefit in the current period. PMI has reviewed all open tax years in each respective jurisdiction and concluded that PMI has no tax liability resulting from unrecognized tax benefits relating to uncertain income tax positions. This is not expected to change significantly during the next twelve months.

PMI accounts for interest and penalties associated with income tax obligations as a component of income tax expense. PMI recognized no interest or penalties as part of the provision for income taxes in the statements of operations for the years ended December 31, 2015 and 2014, and for the period from October 1, 2013 (emergence from bankruptcy) through December 31, 2013.

Comprehensive Income (Loss)

Comprehensive income or loss is defined as the change in equity of PMI during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. For the years ended December 31, 2015 and 2014, and for the period from October 1, 2013 (emergence from bankruptcy) through December 31, 2013, the Company had no items of other comprehensive loss. Therefore, the net loss equals comprehensive loss for the years and period then ended.

Continued

2. Summary of Significant Accounting Policies, continued

Early Adoption of Recent Accounting Pronouncements

In April 2015, FASB issued Accounting Standards Update ("ASU") 2015-03, *Interest – Imputation of Interest* (Subtopic 835-30): *Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires that all costs incurred to issue debt be presented in the statement of financial condition as a direct deduction from the carrying value of the debt liability. The amortization of these costs will remain under the interest method and will continue to be reported as interest expense. ASU 2015-03 is effective for public business entities for fiscal years beginning after December 15, 2015. Early adoption is permitted for financial statements that have not been previously issued. PMI has early adopted ASU 2015-03. The early adoption of ASU 2015-03 has no impact on the 2014 and 2013 consolidated statements of financial condition as there were no debt liabilities.

3. Cash and Restricted Cash

Cash includes interest-earning deposits, and are held at financial institutions that may exceed federally insured limits. PMI has not experienced any losses on these accounts and does not believe it is exposed to any significant credit risk with respect to cash balances held in these financial institutions.

As of December 31, 2015 and 2014, PMI had approximately $1.2 million and $2.9 million, respectively, of restricted cash. Approximately $1.2 million restricted in 2015 and 2014 is for the escrow of the CAA (as described in Note 4 below). The remaining restricted cash balance in 2014 of approximately $1.7 million was deemed to be Creditor Cash associated with unpaid Allowed Claims, which was paid in full in June 2015 in connection with the Final Decree.

4. Other Assets

As of December 31, 2015 and 2014, PMI has approximately $411,000 and $452,000, respectively, in security deposits made by it in connection with the QBE claims discussed in Note 9.

On December 12, 2012, PMI and MIC agreed to the Second Amended and Restated Cost Allocation Agreement (the "CAA"), pursuant to which MIC provided certain Transition Services and Additional Services (both as defined in the CAA) to PMI. The agreement required the deposit of funds into an escrow account (the "Escrow Account"). The parties agreed to pay their respective portions of the PMI Service Costs (as defined in the CAA) as invoiced from each party to the CAA. As of December 31, 2015 and 2014, related party receivables from MIC totaled approximately $23,000 and $18,000, respectively, which are included in other current assets on the consolidated statement of financial condition.

Continued

5. Subordinated Term Loan

On August 28, 2015, PMI entered into the Subordinated Loan Agreement ("Loan Agreement") with BTO, pursuant to which BTO has agreed to make available to the Company in one or more term loans, as defined, in an aggregate principal amount up to $8.0 million ("Total Commitment"). Any amounts borrowed under the Loan Agreement, and subsequently repaid, may not be re-borrowed. On August 28, 2015, PMI borrowed $4.0 million ("Term Loan") under this Loan Agreement. The Company has until August 2017 to make additional loan draws. The Term Loan bears interest rate of 10% per annum and has a maturity date of August 28, 2018. Interest is payable monthly in arrears. All payments of interest on each Term Loan are payable monthly in-kind ("PIK") and will be added to the principal amount of the Term Loan. Interest expense was $144,000 for the year ended December 31, 2015. As of December 31, 2015, the total outstanding principal balance under this Term Loan is $4,144,000. The Term Loan is subject to certain covenants and conditions which, as of December 31, 2015 the Company is in compliance with.

In connection with obtaining the Loan Agreement, PMI incurred and paid debt issuance costs of $1.35 million, and is presented as a direct deduction from the related Term Loan. The debt issuance costs are being amortized to interest expense over the life of Term Loan using an effective interest method. Amortization expense was approximately $137,000 for the year ended December 31, 2015.

Additionally, in connection with the Loan Agreement, PMI issued BTO a warrant (the "Warrant") to purchase 419,474 shares of the Company's common stock at an exercise price of $5.00 per share, which expires on August 28, 2020. The Company estimated the fair value of the warrants at the date of issuance to be $126,500. The amount has been reflected as discount on the debt in the accompanying consolidated statement of financial condition and is being amortized to interest expense over the life of the Term Loan. Amortization expense was approximately $13,000 for the year ended December 31, 2015. The determination of estimated fair value and the classification of the Warrant is discussed in Note 6 below.

6. Common Stock Warrants and Fair Value Measurements

The Company has determined the Warrant is classified as a liability and adjusted to fair value at year end with the changes in fair value recorded in the consolidated statement of operations. The estimated fair value of the warrants at issuance and at December 31, 2015 was $126,500 and $152,000, respectively, based on the Black-Scholes option-pricing model using the weighted-average assumptions below:

	At Issuance Date	At December 31, 2015
Volatility	40%	40%
Risk-free interest rate	1.62%	1.72%
Expected term (in years)	5	4.67
Expected dividend yield	- %	- %
Fair value of common stock	$2.30	$2.55

6. Common Stock Warrants and Fair Value Measurements, continued

The resulting changes in fair value of approximately $25,000 has been recognized in general and administrative expense for the year ended December 31, 2015.

The Warrant is outstanding as of December 31, 2015.

The Company accounts for certain of its financial assets and liabilities at fair value. In determining and disclosing fair value, the Company uses a fair value hierarchy established by GAAP. Due to their short maturity, the carrying amounts reported in the consolidated financial statements for cash and restricted cash, accounts payable and accrued liabilities, and Term Loan approximate their fair values.

As a basis for considering such assumptions, ASC 820-10, *Fair Value Measurements and Disclosures - Overall*, establishes a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value as follows:

Level 1 – Observable inputs, such as quoted prices in active markets for identical and unrestricted assets or liabilities

Level 2 – Quoted prices for similar assets or liabilities or inputs other than quoted prices in active markets that are observable either directly or indirectly.

Level 3 – Unobservable inputs in which there is little or no market data, which require the Company to develop its own assumptions about the assumptions market participants would use in pricing the asset or liability. Valuation techniques include the use of option-pricing models, discounted cash flow models, and similar techniques.

At December 31, 2015 and 2014, the Company had no assets or liabilities required to be measured at fair value using Level 1 or Level 2 inputs. The Company common stock warrant liability is recorded at fair value, determined using Level 3 inputs.

A reconciliation of the accrued liability related to the warrants measured and recorded at fair value on a recurring basis, using significant unobservable inputs (Level 3), is as follows (*in thousands*):

Balance, January 1, 2015	$	-
Common stock warrants issued		127
Change in fair value of common stock warrants		25
Balance, December 31, 2015	$	152

Continued

7. Incentive Awards

Claim Resolution Incentive Award

On December 13, 2013, PMI entered into Claim Resolution Incentive Award Agreements ("Claim Resolution Award") with its then three Board members. In connection with the QBE Claim, as discussed in Note 9, amounts earned pursuant to the Claim Resolution Award will depend on the amount recovered from such claims ("Recovered Value"). As originally written (and still in effect as to a director who resigned in April 2015), in the event that the QBE Claim is resolved for 5.0 million or more Australian Dollars ("AUD"), the award amount will be 1% of the Recovered Value.

Effective with the re-election of two of its Board members, PMI entered into an Amended and Restated Claim Resolution Award on May 28, 2015 with the two re-elected directors. The amended award amount is 3% of the Recovered Value up to $5.0 million, plus 2% of the Recovered Value in excess of $5.0 million up to $12.5 million, plus 1% of the Recovered Value above $12.5 million. In order for a Board member to receive any amounts earned under the original or amended Claim Resolution Award, the claim resolution needs to occur prior to December 31, 2018. No amounts have been earned under the Claim Resolution Awards as of December 31, 2015.

Transaction Incentive Award

On December 13, 2013, PMI entered into Transaction Incentive Award Agreements ("Transaction Incentive Award") with its then three Board members. Each Transaction Incentive Award Agreement provides an incentive award opportunity for the applicable Board member in the event that PMI enters into one of the types of transactions enumerated in the agreement, such as a capital raise, an acquisition of an unrelated entity (or the assets of an unrelated entity), a minority investment in an unrelated entity or a combination of the foregoing transactions, in each case to the extent that the aggregate value of the transaction is at least $4 million. In order to be entitled to an award under the agreement, a Board member must remain in continuous service with PMI until the earlier of the closing of the applicable transaction or December 31, 2015, unless an earlier qualifying termination of that relationship takes place as provided under the agreement (which did occur with respect to the former Board member who resigned in April 2015). In addition, the transaction must have been agreed to by December 31, 2016 in order for a Board member to be entitled to any benefits under the agreement.

Effective with the re-election of two of its Board members, PMI entered into an Amended and Restated Transaction Incentive Award on May 28, 2015, with each of the two re-elected Board members, which was further amended with both Board members on August 28, 2015. The amended cash award amount is $50,000 in the event that the value of all completed transactions are less than $5 million and is 1% of the value of all completed transactions in the event that completed transactions are equal to or greater than $5 million. The cash award amount is capped at a maximum aggregate of $360,000 each. In addition, the transaction must have been agreed to by December 31, 2018 in order for a Board member to be entitled to any benefits under the agreement. The Amended and Restated Transaction Incentive Award also provides for each Board member to receive an equity award equal to 0.50% of the common shares issued in a capital raising transaction or strategic acquisition up to maximum number of shares equal to the lesser of i) 40,000 common shares or ii) shares with a value of $500,000. The equity awards will be granted on the third anniversary of the BTO Transaction or earlier if the Board member's service ends due to a qualifying termination.

Continued

7. Incentive Awards, continued

Transaction Incentive Award, continued

In connection with the BTO Transactions, each of the existing Board members of PMI as of the date of execution of the BTO Transactions as well as the former director received equal cash awards under their respective Transaction Incentive Awards totaling approximately $355,000 in the aggregate, which are included in general, administrative and other expenses on the statement of operations for the year ended December 31, 2015.

8. Taxes

The Company did not provide any current or deferred U.S. Federal or state income tax benefit on the current-year loss due to recording a full valuation allowance.

The components of deferred tax assets consist of the following (*in thousands*):

	December 31, 2015	December 31, 2014
Deferred tax assets:		
Net operating losses (1)	$ 287,670	$ 287,220
Other	13	-
Total deferred tax assets	287,683	287,220
Less valuation allowance	(287,683)	(287,220)
Net deferred tax assets	$ -	$ -

(1) The deferred tax asset noted in above table for net operating losses relates to the potential financial benefit of being able to utilize approximately $822 million of Federal NOLs in the future.

The difference between the Federal statutory tax rate of 35% and the effective tax rate of 0% for both 2015 and 2014 was attributable to the provision of a full valuation allowance.

Based upon available objective evidence as to current and anticipated taxable income from existing operations, the Company believes it is more likely than not that the net deferred tax assets will not be fully realized. Accordingly, the Company has established a valuation allowance for all deferred tax assets. The valuation allowance increased by approximately $0.5 million and $1.7 million during 2015 and 2014, respectively. Should the Company generate sufficient taxable income in the future, all or a portion of the valuation allowance could be reversed.

The net change in the valuation allowance for the years ended December 31, 2015 and 2014 was primarily due to an increase in PMI's NOLs of approximately $1.3 million and $4.8 million, respectively.

Continued

8. Taxes, continued

As of December 31, 2015, PMI's consolidated tax group has approximately $164 million of tax credits which may be available to PMI. Approximately $160.5 million of the tax credits are foreign tax credits, approximately $160.4 million of which will expire in 2018. The remaining credits will be fully expired by 2023. None of these tax credits are generally available to offset tax liabilities until all applicable NOLs have been utilized. The Company believes that most, if not all, of the available tax credits will expire unused based upon current and projected taxable income. Should the Company generate sufficient taxable income in the future, all or a portion of these tax credits may be usable, however the Company has not performed an analysis of any conditions to its usage or to determine how much would be realizable.

As of December 31, 2015, the Company has approximately $144 million in California NOLs that may be available to PMI, however the Company has not performed an analysis to determine how much California NOLs are potentially available or if the NOLs would be subsequently realizable.

The Company has not included the potential value of the tax credits or California NOLs in the schedule of deferred tax assets above given the uncertainty in realizing their value.

Prior to emergence from bankruptcy, PMI had approximately $3.2 billion of Federal NOLs. Pursuant to the Amended Tax Sharing Agreement (as defined below), approximately $1.8 billion of these Federal NOLs were allocated to MIC (as well as future NOLs derived from the operation of MIC). PMI's remaining NOLs were further reduced by approximately $0.6 billion through the recognition of cancellation of debt income resulting upon satisfaction of its outstanding indebtedness for total consideration less than the "adjusted issue price" of the indebtedness that was discharged by the Company pursuant to the Plan.

In general, Section 382 of the Internal Revenue Code ("Section 382") limits the amount of NOL carryforwards and other tax attributes, including certain built-in losses, arising before an "ownership change" that may be used to offset taxable income following the "ownership change." An "ownership change," as defined under Section 382, occurs when certain five percent or greater shareholders of a corporation with NOLs increase their ownership percentage in the corporation by more than 50 percentage points during a rolling three-year period. Pursuant to the Plan, PMI's then-outstanding common stock was extinguished and new common stock of PMI was issued to creditors, resulting in an "ownership change."

There are certain exceptions to the application of Section 382 that are applicable in a bankruptcy context. The Company believes that it qualifies for an exception and the NOLs are not limited by Section 382. There are rules other than Section 382 that could limit the use of the losses, but the Company believes those rules are not applicable. Accordingly, the Company believes that the total available and utilizable Federal NOLs at December 31, 2015 are approximately $822 million. As of December 31, 2015, there was no limitation on the use of these NOLs. These NOLs will begin to expire in 2031. PMI's ability to utilize the NOLs or realize any benefits related to the NOLs is subject to a number of risks. Moreover, the law in this area is unsettled and despite the Company's belief that PMI's NOLs are not subject to any limitations, PMI's use of the NOLs may be challenged in the future by tax authorities.

Continued

8. Taxes, continued

PMI files income tax returns in the U.S. Federal jurisdiction and various states. With few exceptions, PMI is no longer subject to U.S. Federal, state, and local income tax examinations by tax authorities for years before 2009. As a matter of course, various taxing authorities, including the IRS, could audit PMI. There were no tax years under examination by major tax jurisdictions as of December 31, 2015

PMI files a U.S. Federal consolidated tax return with eligible subsidiaries, including MIC. Also, in December 2012, PMI entered into the Amended Tax Sharing Agreement approved by the Bankruptcy Court and the Receivership Court, which among other things, allocated a portion of the consolidated tax group's NOLs between PMI and MIC, as described above.

9. Commitments and Contingencies

On May 1, 2014, PMI filed a claim against QBE Holdings Pty Ltd. ("QBE") in the Supreme Court of New South Wales, Australia for approximately AUD 22.3 million (the amount of the potential tax refund) plus interest and costs. PMI had previously sold its operations in Australia to QBE. In order to proceed with the QBE Claim, PMI was required as a foreign plaintiff in Australia, to post AUD 115,000 in July 2014 and an additional AUD 315,000 in September 2014 with the Australian Court to provide security with respect to the reimbursement of QBE's legal costs in the event PMI is unsuccessful in the prosecution of the QBE Claim. The Company recorded foreign currency losses of approximately $41,000 and $49,000 during the years ended December 31, 2015 and 2014, respectively, to reflect the impact of changing foreign currency exchange rates on the value of these AUD denominated security deposits. As the case proceeds, it is anticipated that additional amounts will be required to be posted for this purpose and incurred in connection with prosecution of the claim. The case is currently scheduled to proceed to trial within the next six months.

On July 11, 2014, PMI and MIC entered into a QBE Litigation Agreement, whereby MIC became a plaintiff in the QBE litigation. The Receivership Court approved the QBE Litigation Agreement on July 14, 2014. Under the QBE Litigation Agreement, MIC is entitled to receive 20% of the first $12.5 million of Recovered Value, up to a maximum $2.5 million. PMI's costs will be deducted from Recovered Value prior to calculating the amount to which MIC is entitled. Under this agreement, PMI has agreed to indemnify MIC against any loss incurred by MIC with respect to MIC's participation as a plaintiff of the QBE litigation. On October 24, 2014, PMI posted a $100,000 deposit as security for this indemnification. The QBE Litigation Agreement also entitles MIC to withdraw up to $400,000 from the existing cost allocation escrow agreement established by PMI pursuant to the CAA in the event that any liability from the QBE litigation arises against MIC that is not paid by PMI.

10. Subsequent Events

The Company has evaluated all subsequent events for recognition and disclosure through February 29, 2016, the date, which these financial statements were available to be issued. Nothing has occurred outside the normal course of business operations that require disclosure or recognition as of December 31, 2015.