

## Report of Organizational Actions Affecting Basis of Securities

▶ See separate instructions.

**Part I Reporting Issuer**

1 Issuer's name  Mackinac Financial Corporation		2 Issuer's employer identification number (EIN)  38-2062816	
3 Name of contact for additional information  Ernie R. Krueger	4 Telephone No. of contact  (888) 343-8147	5 Email address of contact  ekrueger@bankmbank.com	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact  130 South Cedar Street		7 City, town, or post office, state, and Zip code of contact  Manistique, MI 49854	
8 Date of action  12/5/2014		9 Classification and description  Common Stock	
10 CUSIP number  554571109	11 Serial number(s)	12 Ticker symbol  MFNC	13 Account number(s)

**Part II Organizational Action** Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ On December 5, 2014, Peninsula Financial Corporation, a Michigan corporation, merged with and into PFC Acquisition, LLC, a Michigan limited liability company, the wholly-owned subsidiary of Mackinac Financial Corporation, a Michigan corporation, pursuant to an agreement and plan of merger, as amended. The shareholders of Peninsula Financial Corporation received common stock of Mackinac Financial Corporation, cash, or a combination thereof in exchange for their shares. The merger is being treated as a reorganization within the meaning of Section 368(a)(1)(A) of the Internal Revenue Code of 1986, as amended.

Peninsula Financial Corporation shareholders also received a "special dividend" from Peninsula Financial Corporation in connection with the merger that the parties intend to report as additional merger consideration for federal income tax purposes.

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ See attached statement.

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ See Item 15 above for the calculation. The fair market value of the Mackinac Financial Corporation common stock at the time of the merger is based on reported trading prices for Mackinac Financial Corporation common stock.

**Part II** Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ Sections 354(a), 356(a), 358(a), 368(a), and 1001.

Blank lines for providing applicable Internal Revenue Code sections.

18 Can any resulting loss be recognized? ▶ A Peninsula Financial Corporation shareholder who exchanged Peninsula Financial Corporation common stock solely for cash may recognize loss.

A Peninsula Financial Corporation shareholder who receives cash in lieu of fractional shares of Mackinac Financial Corporation common stock may recognize loss.

Blank lines for providing details regarding loss recognition.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ The reportable event occurred on December 5, 2014, and is reportable in the shareholder tax year that includes that date. Mackinac Financial Corporation cannot offer tax advice. For more information regarding the material tax considerations for the merger and limitations on and qualifications of the statements set forth in this Form 8937, see "Material U.S. Federal Income Tax Consequences of the Merger" in the Joint Proxy Statement/Prospectus of Mackinac Financial Corporation as filed with the Securities and Exchange Commission on October 22, 2014. Shareholders should consult with a qualified tax advisor for questions regarding their specific tax treatment.

Blank lines for providing other necessary information.

<b>Sign Here</b>	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.			
	Signature ▶	<i>Ernie R. Krueger</i>	Date ▶	January 13, 2015
<b>Paid Preparer Use Only</b>	Print your name ▶	Ernie R. Krueger	Title ▶	EVP/CFO
	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed PTIN
	Firm's name ▶	Firm's address ▶	Firm's EIN ▶	Phone no.

**ATTACHMENT TO FORM 8937**  
**“REPORT OF ORGANIZATIONAL ACTIONS AFFECTING BASIS OF SECURITIES”**

**PART II, QUESTION 15:**

The aggregate tax basis of the Mackinac Financial Corporation common stock received by the Peninsula Financial Corporation Shareholders is generally equal to the basis in the Peninsula Financial Corporation common stock surrendered in the exchange for the Mackinac Financial Corporation common stock, increased by the gain, if any, recognized by the shareholder (excluding gain with respect to cash received in lieu of fractional shares) and decreased by the amount of cash received in the exchange (excluding cash received in lieu of fractional shares). The actual tax basis will differ for each shareholder and will be dependent on the tax basis of each shareholder in the shares exchanged.

Peninsula Financial Corporation shareholders who received cash in lieu of fractional shares of Mackinac Financial Corporation common stock will be treated as having received the fractional shares in the merger and then as having exchanged the fractional shares for cash. These holders will generally recognize gain or loss equal to the difference between the tax basis allocable to the fractional shares and the amount of cash received.