

## Notices and Risk Factors

### Notices to Prospective Investors

These investment materials are submitted in connection with the private placement of non-voting limited liability company membership interests by the Company (the "Investment"). The Investment has not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws or the laws of any foreign jurisdiction. The Investment is being offered and sold under the exemptions provided by the Securities Act and other exemptions of similar import in the laws of the states and other jurisdictions where the offering will be made. These securities are intended to be offered and sold only to persons to whom offers or sales of the securities may be made without registration under applicable securities laws and who qualify as "accredited investors" as defined in Regulation D under the Securities Act, and does not constitute an offer or solicitation in any jurisdiction or to any person to whom such offer or solicitation would be unlawful.

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Neither the Securities and Exchange Commission nor any state securities regulator or examiner has reviewed or passed upon the merits and risks of an investment in the Investment, nor has any such agency considered or approved the accuracy or adequacy of the disclosures contained in this Private Placement Memorandum. Any representation to the contrary is a criminal offense.

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Prior to executing the contracts necessary to finalize the Investment, the Company will afford prospective investors and their advisors an opportunity to ask questions and receive answers concerning any aspect of the investment and obtain additional information to the extent the Company possesses such information or can acquire it without unreasonable effort or expense.

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Under the state and federal securities laws, the Investment may not be sold or transferred unless a registration statement is in effect or an exemption from registration is available. In addition, the Investment is subject to restrictions on transferability by the terms of the Investment documents, including the promissory notes and the Company's Operating Agreement. An investment through this offering will be illiquid and you should be aware that you will be required to bear the financial risks of this investment for an indefinite period of time.

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No person is authorized to give any information or to make any representation not contained in the investment materials presented along with this statement. Any information not contained herein or authorized hereby must not be relied upon as having been authorized by the Company.

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The investment materials have been created solely for the benefit of the prospective investor to whom it was delivered by the Company. Distribution of these materials to any person other than such prospective investor and his, her or its respective advisors is unauthorized. Any reproduction or distribution of the materials, in whole or in part, or the divulgence of any of their contents, without the prior written consent of the Company, is prohibited. Notwithstanding the foregoing, the Company and each prospective investor (and any of the Company's employees, representatives or other agents) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transaction and all materials of any kind that are provided to the companies or to prospective investors relating to such tax treatment and tax structure.

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The terms and conditions of this offering, the rights and liabilities of the Company and the investors are governed by the final executable contracts that are being presented to prospective investors, including specifically the Subscription Agreement and the Limited Liability Company Operating Agreement. You should review the investment materials and the final contracts carefully with your legal, accounting and tax advisors prior to making any decision concerning investment in the Company.

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You should not construe the contents of any communications from the Company, or any of its agents or representatives, as legal, financial or tax advice, but instead should consult with, and must rely upon, your own attorney and financial and tax advisors to determine the consequences of an investment in the Company and arrive at your own evaluation of the merits of this investment. In addition, you should consult your own financial advisor, attorney and accountant as to tax and related matters concerning an investment in the Investment.

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Special Notice to California Investors: The sale of the securities which is the subject of this agreement has not been qualified with the commissioner of corporations of the state of California and the issuance of the securities or the payment or receipt of any part of the consideration therefor prior to the qualification is unlawful, unless the sale of the units is exempt from the qualification by section 25100, 25102 or 25105 of the California Corporations Code. The rights of the parties to this agreement are expressly conditioned upon the qualification being obtained unless the sale is so exempt.

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## **Risk Factors**

Investing in the Company involves risk. The following risk factors and all other information set forth in the information provided to prospective investors should be considered in evaluating an investment in the Company. In particular, keep these risk factors in mind when you read “forward-looking” statements in the disclosure materials. Forward-looking statements relate to our expectations for future events and time periods. Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements. If any of the events described below occurs, our business, financial condition, results of operations, liquidity or distributions and investment returns to investors could be materially and adversely affected.

Prospective investors should consider, among other matters, the risks related to the marijuana industry, as well as the risks inherent to new ventures described below.

## **Cannabis Industry Related Risks**

### State Laws

The Company must strictly comply with the statutes, rules, and regulations that allow for the licensing and financing of marijuana businesses in the states in which the Company operates; failure to strictly comply could result in the suspension or cancellation of the Company’s ability to do business in a given state and could result in loss of the Company’s investment. The Company intends to lend money to companies that have applied for and received licenses to cultivate, manufacture, process, distribute, and sell marijuana and marijuana infused products. Businesses that borrow from the Company will apply for the Licenses pursuant to rules and regulations adopted in their individual states. In certain circumstances, they will also need to apply for specific permission to borrow from the Company. In all circumstances, the Company and businesses that borrow from the Company must strictly comply with state and local rules and regulations or risk the possible suspension and cancellation of the Licenses, harming the Company’s ability to lend in the future and risking the Company’s investment.

### California Laws

The Borrowers must strictly comply with MAUCRSA; failure to strictly comply could result in the suspension or cancellation of their licenses and likely defaults on the loans.

California has authorized recreational sales of cannabis beginning as of January 1st, 2018. Though medicinal cannabis has been sanctioned in California for more than twenty years, the Medicinal and Adult-Use Cannabis Regulation and Safety Act ("MAUCRSA") signed into law on June 27, 2017 introduced a set of governing entities and guidelines to regulate both recreational and medical cannabis in the state.

Under the MAUCRSA, three main agencies are charged with overseeing cannabis activities in the state: The Bureau of Cannabis Control (the "BCC") within the Department of Consumer Affairs, CalCannabis Cultivation Licensing within the Department of Food and Agriculture ("DFA"), and the Manufactured Cannabis Safety Branch ("MCSB") within the Department of Public Health. Each of these entities oversees the licensure of various cannabis businesses. The BCC is the overall governing agency, and it issues licenses to distributors, dispensaries, microbusinesses, and testing laboratories. CalCannabis Cultivation Licensing will issue licenses to cultivators and will also be responsible for implementing the Track-and-Trace System for plants from seed-to-sale. The MCSB will issue licenses to manufacturers of cannabis.

There are 20 different types of licenses for different categories of cannabis activities, and a single entity may possess both medical and adult use licenses. The MAUCRSA permits vertical integration by licensees to hold licenses in more than two separate licensing categories. Only businesses engaged in "commercial cannabis activity" require to have a license – ancillary services, technology, and know-how are not included, unless their interests in the licensee amount to "ownership" or a "financial interest."

Under MAUCRSA, an "owner" of a cannabis licensee is: (1) anyone with an aggregate ownership interest of 20% or more in the licensee, unless the interest is solely a security, lien, or encumbrance, (2) the chief executive officer of a nonprofit or other entity, (3) a member of the board of directors for a nonprofit, or (4) an individual participating in the direction, control, or management of the applicant. Each owner of the entity applying for a cannabis license is required to submit fingerprint images and background checks. Such fingerprinting requirement will extend to all investors in the Fund, if the Fund holds 20% or more of a licensee.

Prior to receiving a license under the MAUCRSA, each applicant must be locally compliant. According to the MAUCRSA, local governments (i.e., counties and municipalities) have the right to regulate cannabis businesses or even ban them completely from the local jurisdictions.

Operators of cannabis licenses must navigate these evolving regulations carefully, and consistently maintain compliance with the State and local regulations.

If a Borrower is found to have violated the applicable rules and regulations, the Regulators have the power to suspend their licenses and seek cancellation of the licenses. In such event, we will be less likely to receive the repayment of the loans from such Borrowers and will rely on the security for such loans to make ourselves whole.

### Federal Laws

The cultivation, processing, distribution, and dispensing of medical and recreational cannabis and medical and recreational cannabis related products, even where permitted under state law, remains illegal under the federal Controlled Substances Act (the "CSA").

Under the CSA, the cultivation, manufacture, possession and distribution of any amount of cannabis remains a crime. In 2013, after the 2012 legalization of cannabis in Colorado and Washington, the DOJ published Guidance Regarding Marijuana Enforcement (known as the "Cole Memo") stating that, if a company is involved in the cannabis industry within a state that has legalized or "medicalized" cannabis with a sufficient regulatory regime in place and that company's conduct does not interfere with specified federal priorities, then the DOJ would not view pursuing criminal violations of federal law as a high

enforcement priority. On January 4, 2017, Attorney General Jeff Sessions issued a Memorandum with subject "Marijuana Enforcement" stating, in part, that current law reflects "Congress' determination that cannabis is a dangerous drug and cannabis activity is a serious crime" (the "Sessions Memo"). The Sessions Memo rescinded the Cole Memo as well as other guidance issued via memoranda by past DOJ officials related to cannabis, and instead referred prosecutors to the 1980 U.S. Attorneys Manual, including referencing its directive requiring "federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community."

Federal law preempts state law in these circumstances, so that the federal government can assert criminal violations of federal law despite state law. The level of prosecutions of state-legal cannabis operations is entirely unknown, nonetheless the stated position of the current administration is hostile to legal cannabis, and furthermore may be changed at any time by the DOJ, to become even more aggressive.

The DOJ under the current administration could allege that the Company and its Managers and, potentially, its equity owners, "aided and abetted" violations of federal law by providing finances and services to the Borrowers that are cannabis operators. Under these circumstances, it is possible that the federal prosecutor could seek to seize the assets of the Company, and to recover the "illicit profits" previously distributed to its investors resulting from any of the foregoing financing or services. In these circumstances, the Company's business would suffer a material harm, the Investor and other equity owners may lose their entire investment and principals, officers and/or equity owners may be left to defend any criminal charges against them at their own expense and, if convicted, be sent to federal prison.

### **Company Related Risks**

The regulated marijuana business industry is still relatively new and the Company cannot predict with certainty if it will be successful in implementing its business plan, or even assessing whether, if the plan is implemented, the Company will be successful.

The Company's ability to implement its business plan will depend in part upon lending to companies that can achieve the successful production or retail sales of marijuana and marijuana infused products that meet the quality standards required by the applicable rules and regulations. In addition, the Company must find a sufficient market for borrowers that are in the market for small business loans. The Company will likely need to adapt its business plan in response to market pressures, both from consumers as well as competitors.

With stringent rules and regulations applicable to the Company's operations, the Company may incur significant delays or obstacles in its ability to identify, negotiate with, and lend to licensed marijuana businesses. These obstacles, which could be related to regulatory or other issues, could delay or prevent the entire implementation of the plan and increase costs of the Company.

The Company can expect competition to increase as the marijuana industry grows and matures, and it will compete against other financial firms that are larger and have substantially more experience and greater resources.

There are numerous other companies vying to provide financing to marijuana businesses, and there are likely to be other competitors entering this field, especially as the industry matures (and especially if interstate sales of marijuana at some future date becomes legal). These competitors may be larger organizations with more experience in providing financial services (or other similar products) that have the following competitive advantages:

- Greater financial and infrastructure resources
- Larger research and development staffs
- Greater experience in marketing and customer identification
- Greater brand recognition

- These competitors could use their greater resources to further increase the level of competition in the market through various means, including:
  - Rate and payment terms that the Company is unable to match
  - Superior marketing strategies
  - Technological innovation
  - Market penetration that the Company cannot match
  - Employee compensation that the Company cannot match

The Company is dependent upon the ability and efforts of its founders for all efforts in connection with the licensing, and implementation of the Company's business plan.

As with many start-ups, the Company depends upon its founders for the development and implementation of its business plan, including complying with applicable rules and regulations and developing the operational systems necessary to use a lending platform to lend money to licensed marijuana businesses. Accordingly, the loss of Seke Ballard, Nikolas Green, George McGill, or others would have a material adverse effect on the Company's business, which, in turn, could potentially cripple the Company.

The Company may become involved in litigation that requires it to spend substantial amounts defending itself or its members as contemplated by the indemnity provisions of its Operating Agreement and other company documents.

The Company, like all companies, has the risk of being sued by its customers, suppliers, employees, competitors and government agencies for damages caused by the company or its employees. If the company does not perform under contracts that it signs, the company may also be sued for damages. The company does not currently have the financial resources to defend any significant litigation, nor does it have the funds to pay any damages. The costs of litigation or paying damages may bankrupt the company.

The likelihood of success of the Company must be considered in the light of the problems, expenses, difficulties, complications and delays likely to be encountered by the Company in connection with a start-up business in an industry with little history. There can be no assurance the Company will be able to market and sell its financial products.

## **Organizational and Operational Risks**

### Control of Company

Investors will not manage the Company or exercise control over virtually any of the management of its business activities or affairs. The Managers have broad discretion in the management of the Company. Investors have no material control over the management of the Company. Moreover, the Managers may not be removed by a vote of Investors.

### Indemnification of Manager and Affiliates

The Operating Agreement provides that the Company will indemnify and hold the Manager and affiliates harmless from and against any and all losses, claims, damages and liabilities to which they may be subject, insofar as they arise by virtue of their performance of services for the Company, except where the act or omission of such part constitutes gross negligence, reckless conduct, intentional misconduct or a knowing violation of the law.

### Liability for Capital Return

Under very limited circumstances, such as in the event of the Company's insolvency or a seizure of the Company's assets by the federal DOJ, each Investor could be required to return distributions or other payments received from the Company.

### No Right to Return

There can be no assurance that the Company will realize its investment objectives. If the Company does not realize its investment objectives, Investors may not receive a return on their investments.

## **Private Offering**

Limited Private Offering; Absence of SEC or State Reviews. This Offering is a private offering and is not registered under the Securities Act or any other federal or state securities laws. This Summary has not been reviewed by the SEC or any equivalent state authority. The offering of the membership interests by the Company has not been reviewed by the SEC or any equivalent state authority. Review by the SEC or state authorities might have resulted in the making of additional disclosures or the making of substantially different disclosures from those actually included in this Summary. Although this Offering is not registered, the Company anticipates that notice filings will be made with the SEC and in the various states where this Offering is conducted.

## **Restrictions on Transfer of Units**

Because Units are being offered by the Company pursuant to exemptions from registration under applicable federal and state securities laws, the transfer of Units are restricted under the Subscription Agreement unless: (i) such Units are registered pursuant to federal and applicable state securities laws; or (ii) other exemptions from such registration requirements are applicable to and after such transfer. The Operating Agreement also imposes substantial restrictions on the transferability of the Units. Even if securities law exemptions are available and a transfer is permitted under the Operating Agreement, no ready market now exists nor can such a market be expected to exist for the sale, transfer or other disposition of the Units. Therefore, it should be anticipated that a Member will be required to bear the economic risk of his, her or its investment for an indefinite period of time.

EACH PROSPECTIVE INVESTOR IS ENCOURAGED TO SEEK THE ADVICE OF HIS, HER OR ITS OWN LEGAL, ACCOUNTING AND TAX ADVISERS BEFORE MAKING AN INVESTMENT DECISION.