



CNOTE GROUP, INC.

PRIVATE PLACEMENT MEMORANDUM FOR

“WISDOM FUND”

ADJUSTABLE-RATE PROMISSORY NOTES

Dated for reference purposes only: March 4, 2021

THIS CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL, OR SOLICITATION OF AN OFFER TO BUY. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY HAS APPROVED OR DISAPPROVED OF THIS OFFERING OR THE SECURITIES OR DETERMINED IF THIS MEMORANDUM IS TRUTHFUL OR COMPLETE.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED WITH UNDER THE SECURITIES ACT OR ANY STATE SECURITIES LAWS, ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE, AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT, THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM OR OTHERWISE PURSUANT TO THE OFFERING DOCUMENTS.

THE INVESTMENT DESCRIBED HEREIN INVOLVES A HIGH DEGREE OF RISK OF LOSS. SEE RISK FACTORS IN “*RISK FACTORS*” AND THROUGHOUT THE MEMORANDUM.

CAPITALIZED TERMS USED IN THIS MEMORANDUM BUT NOT ELSEWHERE DEFINED HEREIN SHALL HAVE THE MEANINGS SET FORTH ON EXHIBIT A.

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NOTICES

General Notices to All Investors

Investment in this Offering involves a high degree of risk, and investors should not invest any funds in this Offering unless they can afford to lose their entire investment. In making an investment decision, investors must rely on their own examination of the terms of this Offering, including the merits and risks involved. See “*Risk Factors.*”

ONLY INFORMATION OR REPRESENTATIONS CONTAINED IN THE OFFERING DOCUMENTS, INCLUDING THIS MEMORANDUM, MAY BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY IN CONNECTION WITH THIS OFFERING. INVESTORS ARE CAUTIONED NOT TO RELY UPON ANY INFORMATION NOT EXPRESSLY SET FORTH IN THE OFFERING DOCUMENTS. No person has been authorized to give any information or to make any representations other than those contained in this Memorandum in connection with the offer being made hereby, and if given or made, such information or representations must not be relied upon as having been authorized by the Company. The Platform is not a part of, and is not incorporated into, this Memorandum, and should not be considered part of the Offering Documents.

The information presented is as of the date set forth on the cover page hereof unless another date is specified, and neither the delivery of this Memorandum nor any sale hereunder shall create any implication that there have been no changes in the information presented subsequent to such date(s).

The statements contained herein are based on information believed to be reliable. No warranty can be made as to the accuracy of such information or that circumstances have not changed since the date such information was supplied. NEITHER THE COMPANY NOR ANY OF ITS DIRECTORS, OFFICERS, EMPLOYEES, OR OTHER AGENTS ASSUME ANY RESPONSIBILITY FOR THE INACCURACY OF THE INFORMATION CONTAINED HEREIN.

Prospective investors are not to construe the contents of this Memorandum as legal, investment, or tax advice. Prospective investors should consult their advisors as to legal, investment, tax, and related matters concerning an investment by such prospective investors in the Company. COMPANY, ITS RESPECTIVE MANAGERS, OFFICERS AND OWNERS AND ANY OTHER REPRESENTATIVE OF ANY OF THE FOREGOING DO NOT ASSUME ANY RESPONSIBILITY FOR ECONOMIC, LEGAL OR TAX ADVICE CONCERNING THIS INVESTMENT, OR THE ECONOMIC, LEGAL OR TAX CONSEQUENCES OF THIS INVESTMENT TO ANY INVESTOR. NO REPRESENTATION OR WARRANTY IS MADE AS TO WHETHER OR THE EXTENT TO WHICH, THE INTERESTS CONSTITUTE A LEGAL INVESTMENT OR A SUITABLE INVESTMENT FOR THE PROSPECTIVE PURCHASER.

Jurisdictional Notices

NOTICE TO RESIDENTS OF ALL STATES: IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE PERSON OR ENTITY CREATING THE SECURITIES AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. PURCHASERS SHOULD BE MADE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

NOTICE TO FLORIDA RESIDENTS ONLY: IF THE SECURITIES ARE SOLD TO, AND ACQUIRED BY, FIVE OR MORE FLORIDA RESIDENTS IN A TRANSACTION EXEMPT UNDER SECTION 517.061 OF THE FLORIDA SECURITIES ACT, EACH FLORIDA INVESTOR MAY HAVE THE RIGHT TO WITHDRAW HIS, HER, OR ITS INVESTMENT WITHIN THREE DAYS AFTER THE FIRST TENDER OF CONSIDERATION MADE BY SUCH INVESTOR, OR WITHIN THREE DAYS AFTER THE AVAILABILITY OF THIS MEMORANDUM TO SUCH INVESTOR, WHICHEVER OCCURS LATER. EACH INVESTOR ELECTING TO EXERCISE SAID RIGHT SHALL SUBMIT A WRITTEN NOTICE TO THE COMPANY AT THE ADDRESS SPECIFIED IN THIS MEMORANDUM PRIOR TO THE EXPIRATION OF THE TIME PERIOD PROVIDED UNDER THE ACT CLEARLY AND UNEQUIVOCALLY INDICATING INVESTOR'S DESIRE TO WITHDRAW HIS, HER OR ITS INVESTMENT IN THE SECURITIES.

NOTICE TO NEW YORK RESIDENTS ONLY: THIS MEMORANDUM HAS NOT BEEN REVIEWED BY THE ATTORNEY GENERAL OF THE STATE OF NEW YORK PRIOR TO ITS ISSUANCE AND USE. THE ATTORNEY GENERAL OF THE STATE OF NEW YORK HAS NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

Cautionary Note Regarding Forward-Looking Statements

This document contains “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, regarding events, conditions, and financial trends that may affect the Company’s future plans of operation, business strategy, operating results, and financial position. Except for historical information contained herein, the matters discussed in this document, in particular, statements that use forward-looking terminology such as “believes,” “intends,” “anticipates,” “may,” “will,” “should,” or “expects,” or the negative or other variation of these or similar words, are intended to identify forward-looking statements that are subject to risks and uncertainties including, but not limited to,

increased competition, financing, governmental action, legal actions, and other unforeseen factors. Although the Company believes the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations are reasonable or that they will be correct. Moreover, the financial results reported herein, if any, are not necessarily an indication of future prospects of the Company. Future results may differ materially.

All subsequent written or oral forward-looking statements attributable to the Company are expressly qualified in their entirety by the cautionary statements included in this document. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this document might not occur.

OVERVIEW

CNote is an early-stage financial technology company with a pending B Corp certification. We use the majority of investors' capital to provide loans to Community Development Financial Institutions (CDFIs), which organizations are certified by the CDFI Fund, and which, in turn, directly provide loans to underserved segments of the population, such as women- and minority-owned businesses. Since inception through June 30, 2019. As of September 30, 2020, we have made loans to 16 CDFIs in an aggregate principal amount of \$36.3 million.

The Company is now conducting this Offering to make available for purchase the Notes by accredited investors, as that term is defined in Rule 501 of Regulation D promulgated under the Securities Act (hereinafter, “**accredited investors**”). The Company aims to deploy the proceeds of this Offering to CDFI partners that make loans to women-owned businesses in an effort to close the wealth gap for women in the United States. The Notes are subject to the terms and conditions set forth in the Offering Documents. See “*About the Offering*” for more information.

Background on CDFIs

In order to receive certification by the U.S. Department of the Treasury, CDFIs, which are typically non-profit community lenders, must demonstrate a strong commitment to financial performance and community impact. Based on a 2018 report by the Opportunity Finance Network (OFN), the national association for CDFIs, there are over 1,100 CDFIs with total assets over \$185 billion, including loans to borrowers such as schools, community centers, affordable housing and minority and women-owned businesses. According to the analysis, 174 CDFIs who participated in the survey created over 1.5M jobs in the United States since their beginnings.

CDFIs currently receive the majority of their capital from large financial institutions and foundations. OFN reports that less than 5% of all funding for CDFIs come from individual investors, and of that amount, the bulk comes from accredited investors. In view of these dynamics, and the estimated shortfall of over \$600 million facing the CDFI industry as a whole, CNote believes there is an opportunity for individual investors to support these community lenders. By investing in CNote Notes, investors will help support the CDFIs' mission to provide responsible capital to a variety of borrowers, promoting community development and social impact.

Wisdom Fund Collaborative

The Wisdom Fund Collaborative (the “**Collaborative**”) is a national effort among various for-profit and nonprofit organizations, including the Company (California), the CDC Small Business Finance (California), TruFund Financial Services, Inc. (New York), Carolina Small Business Development Fund (North Carolina), Lift Fund Corporation (Texas), and Fund Consulting (Illinois). The mission of the Collaborative is to work together to bring new thinking, experimentation and sustainable solutions to drive wealth creation for low to moderate income and minority women in the United States by developing new, inclusive practices, including exploring and developing new underwriting, distribution and product efforts.

Utilizing a multi-dimensional approach, the Collaborative seeks to deploy additional capital into women-led businesses to fund innovation, product development, distribution channels and financial coaching resources. The deployment will occur in 3 phases, and lessons and best practices learned from each phase will be carried into the next in order to better design and implement products targeted to women-led businesses.

In keeping with our commitment to the Collaborative, we are conducting this Offering to drive more capital to low- to moderate-income and minority women entrepreneurs in the United States with a particular emphasis on women of color.

ABOUT THE OFFERING

The Offering, the terms of which are described in the Offering Documents, consists of the sale and issuance of the Notes. See “*Risk Factors*” and the other information in this Memorandum and documents incorporated by reference for factors that should be considered before deciding to invest in the Offering. Investors should be prepared to hold their Notes to maturity.

Restricted Securities

The Offering is being conducted pursuant to certain exemptions from registration under the applicable rules of the Securities Act, and specifically Rule 506(c) of Section 4(a)(2) thereunder. As such, the Notes have not been registered under the Securities Act nor under applicable state securities laws and may not be sold or transferred unless such Securities are subsequently registered under the Securities Act and such state securities laws or an exemption from such registration is available.

Eligible Investors

The Notes shall only be offered to and purchased by accredited investors. As required under the Securities Act, the Company may, as a condition to the sale and issuance of a Note to any purchaser, take reasonable steps to verify that all purchasers of the Notes are “accredited investors” as defined under Rule 501 of Regulation D promulgated under the Securities Act. Such steps may include, but are not limited to, review of purchasers’ tax returns and forms, statements of banks and securities holdings, and consumer reports.

Summary of Key Terms of the Notes

The Notes are subject to certain terms with respect to accrual of interest, repayment of the Notes, and other terms specified in the Notes and the Subscription Agreement. The key terms of the Notes are summarized below and are further described in the Notes and the Subscription Agreement. In the event of any conflict between the summary contained herein, on the one hand, and the terms of the Notes or the Subscription Agreement, on the other hand, the terms of the Notes or the Subscription Agreement, as applicable, shall govern.

Interest rate	1% per year, commencing on the Accrual Date (as defined in the Notes), and payable quarterly.
Maturity date	60 months
Payment	Payment on the Notes (principal and interest) is dependent on the Company’s receipt of payment on the underlying loans made to our CDFI partners (the “ Underlying Loans ”). As such, the interest and/or principal of the Notes may be partially reduced or

	eliminated in the event that the Company does not receive full payment on the Underlying Loans.
Withdrawal	Investors may not withdraw principal prior to maturity and should expect to hold the Notes to maturity.
Prepayment	Principal and interest payable prior to maturity at the election of the Company without premium or penalty.

Issuance of the Notes

We issue the Notes in a series of Closings (as defined in the Subscription Agreement), which occur as soon as reasonably practicable after the Company has obtained commitments from investors. We refer to the date on which a Closing occurs as the “Closing Date.” Once an investor completes the subscription process and commits to purchase the Notes (either manually via the execution of the Subscription Agreement and the Note, or electronically via the CNote Platform when such functionality becomes available on the CNote Platform), and subject to the Company’s verification of such investor’s status as an accredited investor, an investor is deemed to have committed to invest at the next Closing. Until a Closing is scheduled, an investor may modify the amount of the Notes the investor elects to purchase. On the Closing Date, the investor shall ensure that the principal amount of the investors’ Note(s) has been transferred to CNote, except that if the investor subscribes for the Notes via the CNote Platform, funds will be drawn from the investor’s bank account. The Notes begin to accrue interest on the date when the funds are deployed with CDFIs, as more fully described in the Notes.

Use of Proceeds

The Company’s aim is to have the funds generated from this Offering lent to CDFI partners that will originate loans to businesses led by women (particularly, women of color) in connection with the Wisdom Fund Collaborative. However, while the Company intends to drive the capital raised through this Offering to women-led businesses, our CDFI partners may lend some portion of the funds to other demographics depending on the supply and demand for capital.

Tax Consequences

Prospective investors are urged to consult their own tax advisors regarding the tax consequences of purchasing, owning, and disposing of the Securities in light of their personal investment circumstances.

How to Invest

To invest in the Notes, investors must have a CNote account created and verified, sign the Subscription Agreement and the Note and have sufficient funds in their bank account to complete an investment.

ABOUT THE COMPANY

We were incorporated in Delaware in April 2016 and began operations in April 2016. Our principal address is 2323 Broadway, Oakland, CA 94612.

Financial Information

To date, the Company has incurred business losses as a result of investment in the development of technology and business processes, including forming relationships with CDFI partners and other institutional partners, and anticipates that such losses will continue for the foreseeable future. The Company expects that the development of such technology and relationships will contribute to its long-term growth and success, although there is no guarantee that the Company will achieve its intended results.

To date, the Company has funded operations primarily through Simple Agreements for Future Equity (“SAFEs”) agreements, convertible promissory notes (“**convertible notes**”) and has funded its lending activities through investments in notes payable by accredited and non-accredited investors.

As of June 30, 2020, the Company has raised \$1,619,500 by selling SAFEs, which do not have maturity dates, nor do they accrue interest. On August 25, 2020, the SAFEs were converted into preferred shares issued in accordance with the terms of the agreements.

As of June 30, 2020, the Company has raised \$1,725,660 by selling convertible notes. The convertible notes have a maturity date of two (2) years and an interest of four (4) percent per annum. On August 25, 2020, the convertible notes were converted into preferred shares issued in a qualified financing at a conversion price as set in the convertible note agreement.

On August 25, 2020, the Company entered into a Series Seed financing whereby the Company may issue up to 10,985,512 shares of its Series Seed Preferred Stock in exchange for conversion of the Company’s convertible notes and accrued interest and cash consideration of up to approximately \$3,500,000 (to date, the Company has sold and issued a total of 10,248,616 shares of Series Seed Preferred Stock).

The capital raised has been used to develop and maintain the Company’s platform, to fund legal expenses, for marketing and advertising, for expanding operations, and for other general corporate purposes.

The Company expects these existing funds, together with the recurring operating revenue, to be sufficient to meet anticipated near-term cash operating expenses and capital expenditure requirements. If those funds are insufficient to satisfy liquidity requirements, the Company intends to seek additional equity or debt financing. The sale of equity may result in dilution to our stockholders and those securities may have rights senior to those of our common shares. If the Company raises additional funds through the issuance of debt, the agreements governing such debt could contain covenants that would restrict our operations and such debt would rank senior to shares of our common stock. The Company may require additional capital beyond currently

anticipated amounts and additional capital may not be available on reasonable terms, or at all. There are no assurances that management will be able to raise capital on terms acceptable to the Company or increase revenues and margins enough to sustain operations. If we are unable to obtain sufficient amounts of additional capital, we may be required to reduce the scope of our planned operations, which could harm our business, financial condition and operating results.

Management

Catherine Berman

Ms. Berman co-founded CNote and has served as our President and Chief Executive Officer and a member of our Board of Directors since June 2016. Before launching CNote, Ms. Berman served as Managing Director of Charles Schwab, one of America's leading financial services businesses. At Schwab, Ms. Berman led a strategy division focusing on the future of financial services. Prior to Schwab, Ms. Berman maintained a host of management positions including Senior Vice President of Astia (venture capital), Strategy & Operations Manager at Deloitte Consulting, LLP (management consulting) and Vice President of Evins Communications, LLC. Her international work experience spans from India to Israel with extensive work in Central and South America. Her last startup, Global Brigades, grew into a multi-million dollar firm in less than four years and is now the world's largest student development firm. Ms. Berman graduated magna cum laude from Boston University and received her MBA from the University of Oxford where she founded the Oxford Women in Business Network.

Yuliya Tarasava

Ms. Tarasava co-founded CNote and has served as our Chief Operating Officer, Treasurer, Secretary and a member of our Board of Directors since the company's inception. Ms. Tarasava began her career conducting intensive quantitative research on new market opportunities and designing investment solutions across asset classes for AMG Funds, a global asset management firm providing access to boutique investment strategies. Ms. Tarasava then went on to Summit Rock Advisors where she developed and implemented the firm's proprietary analytics and risk management framework. Most recently, she worked with a high-growth financial services company in Kenya where she led both product development and scale strategy efforts working directly with the company's chief executive officer. Her prior experience also includes creating an investment education portal in Russia and providing pro-bono consulting for non-profits and startups around the world. Ms. Tarasava graduated magna cum laude from Belarusian State University and received her MS in Finance from Fairfield University.

John "Michael" Ivancie, Jr.

Mr. Ivancie is CNote's VP of Marketing. Prior to CNote, Mike worked as a Staff Attorney at the Department of Homeland Security, which he left to start a niche law practice. After spending three years growing and marketing his practice, he transitioned to a full-time career in marketing. Mike holds a BA in Criminology with a minor in Management from UC Irvine. He received his JD from the University of Arizona in 2009, and he is a licensed California attorney. He is currently an MBA candidate at UC Berkeley's Haas School of Business.

Danielle Burns

Ms. Burns is CNote's VP of Business Development. Prior to joining CNote, Danielle worked for First Affirmative Financial Network in a variety of roles. She most recently served as Vice President of Sales and Marketing on a team responsible for the growth and profitability of the firm's distribution channels. Danielle began her financial services career in 1994 with Wachovia Corporation where she worked for both Wachovia Bank and Wachovia Securities. Danielle serves on the board of Green America, a not-for-profit membership organization, whose mission is to harness economic power to create a socially just and environmentally sustainable society. Additionally, Danielle serves on the SRI Conference & Community Advisory Board. Danielle is a certified trainer for Walking on the Glass Floor which promotes Diversity and Inclusion for Women in Leadership. Danielle holds an MBA with an emphasis in marketing and the AIF® designation.

Robert Shaw

Mr. Shaw is a software engineer with over 10 years of experience building technology, leading projects from idea to launch, and improving engineering teams. Before CNote, Rob ran product engineering at Secureware, a security focused blockchain startup. Prior to Secureware, he was a product manager and engineer at a small design and software engineering consulting firm focused on building solutions for a variety of different businesses. Rob started his career at Aprimo where he worked directly with large teams at Fortune 100 companies building out complex customizations and enterprise integrations. Rob holds a BS in Computer Science from Purdue University.

Gasper Magallanes

Mr. Magallanes is an experienced financial executive with over a decade of diligence, modeling and financial analysis experience. He maintains deep community finance, operational governance and financial audit experience with expertise on mission-based lending organizations. Gasper has experience growing and managing diverse teams, driving strategic efforts. For the past 11 years, he has worked for EdTec, a boutique fractional CFO advisory services firm, where he worked on various underwriting/lending programs with CDFIs among his clients, addressing multi-factored financial stress tests within complex modeling environments. He is a graduate of Stanford University with an academic background in Finance, Management Science and Engineering.

Stacy Zielinski

Ms. Zielinski brings over a decade of experience and deep knowledge of CDFI finance and operations to her role at CNote. She started her career in the community development space developing and managing the technical assistance program for loan clients and overseeing all aspects of business services. She later transitioned into underwriting and led the integration of the SBA Community Advantage Program into WWBIC's lending program. At Milwaukee Economic Development Corporation (MEDC), Stacy took over the SBA Community Advantage Lending program and maintained her focus on loan origination and underwriting across different lending

products. Before joining CNote, Stacy had her own consultancy practice helping CDFIs to align their finance and operations with the industry best practices. Stacy holds an MBA from Alverno College, a BA from Marquette University and brings over a decade of small business experience as owner/operator in the retail and hospitality industries.

Our Platform

Our technology-driven Platform allows the Company to aggregate investor capital to make loans to CDFIs.

As of September 30, 2020, we have made loans to 16 CDFIs. In addition, we are in discussions with five additional potential CDFIs regarding possible lending relationships. Before we enter into a lending relationship with a potential CDFI, we conduct diligence and review its organizational structure and financial stability, historic track record, leadership and community impact.

Our Platform allows investors to commit to purchase our Investment Products, including the Notes offered hereby, upon completion of the registration process. The Platform is open to institutional, accredited, and non-accredited investors. Our accredited investors (“**Reg. D**”) invest via Regulation D of the Securities Act and our non-accredited investors are able to invest via Regulation A (“**Reg. A+**”) of the Securities Act.

Periodically, depending on the availability of, and demand for, capital, we use the aggregated investor capital to make loans to our CDFI partners. Proceeds from the Notes may be aggregated with funds from institutional, accredited, and non-accredited investors to collectively fund the loans to CDFI partners. Final decisions on use of proceeds allocations will be made by management on a loan-by-loan basis for each CDFI partner.

The loans we make are used by our CDFI partners, along with their other sources of financing, primarily to lend to a variety of small businesses and other borrowers whom our CDFI partners have underwritten and backed. Our CDFI partners lend primarily to segments traditionally underserved by major financial institutions. Currently, the aim is to have the majority of the funds generated from this Offering lent to CDFI partners that will originate loans to women-owned businesses through the Wisdom Fund Collaborative (as discussed above). Although CNote is not involved in our CDFI partners’ vetting procedures, we monitor our CDFI partners’ lending activities.

We may provide investors with information and stories on historical loans made and projects funded and may also provide metrics such as percentage of businesses supported by our CDFI partners that are, for example, women-owned. However, we will not be directly connecting investors to CDFI partners or to their borrowers. Further, these stories and metrics are for informational purposes only, and we do not make any representations about, or solicit contributions to, a particular loan to a particular CDFI partner. The Company does not provide information about current investment opportunities and investors do not have the ability to direct their investments to a particular CDFI partner, or to a particular borrower. Past performance is not indicative of future results.

Our Business Model

Under our business model, we generate revenue by keeping the difference between the interest rate we charge our CDFI partners and the interest distributed to our investors.

The loans we make to CDFI partners are full recourse to the CDFI partners. The loans to CDFI partners are not amortizing and CDFI partners repay the loans quarterly through electronic bank payments. We are currently legally authorized to lend in 46 states plus the District of Columbia as a non-bank commercial lender.

Our Process

CNote aggregates investors' contribution amounts from its Platform periodically. CNote's proprietary technology algorithm will decide how to allocate the aggregated contributions among the different CDFI partners. This algorithm will ensure that investors' capital is properly spread out across CDFI partners, to maximize diversification for our investors and to mitigate risk. In turn, our CDFI partners lend to a variety of small businesses, oftentimes spread across geographic areas and in varying amounts of principal, which further diversifies the risk for our investors.

Currently, CNote does not let individual investors choose which CDFI partner(s) to invest in. We do not allow this because there is no standard set of information available to investors to adequately assess the risk of investing in particular CDFI partners. Our three-part diligence process presents a critical value proposition for the investor, allowing them access to CDFI partners that are otherwise difficult to find or assess from the standpoint of making a financial investment.

CDFIs

We will only enter into a lending relationship with a potential CDFI borrower after satisfactory completion of our due diligence review. Prospective CDFI borrowers must provide us with relevant data about their organization's financial health (including audited financial statements), organizational capacity, business volume and projected growth, product line, loan portfolio performance, credit enhancements, and social impact. We use this data to underwrite a CDFI borrower.

Application Process

Potential CDFI borrowers may express interest in entering into a lending relationship by contacting CNote and submitting an application online. CNote lends to qualified CDFI borrowers who pass our business, credit and impact qualifications and are approved through our underwriting process. Borrowers provide a variety of information including audited financial statements, impact report and loan portfolio status. Our diligence process typically takes two to four weeks.

Underwriting Process

Currently, we offer CDFI borrowers term loans of five (5) year maturity and varied amounts defined during the underwriting process.

Specifically, we provide simple, balloon payment, fixed-term loans only to qualified CDFI borrowers. We do not provide loans directly to the small businesses and projects which CDFI borrowers support. In order to qualify, potential CDFI borrowers must be approved through our proprietary underwriting process, which analyzes their creditworthiness, financial health and impact data. CNote conducts three stages of due diligence on prospective CDFI borrowers, which include internal due diligence following industry best practices, reviewing opinions from AERIS, the rating agency that specializes in CDFIs and/or the opinion of OFN, the national membership association of CDFIs, and a third-party review by stakeholders, with expertise in the CDFI industry, and with no ties, financial or otherwise, either to us or to the potential CDFI borrower, to provide tertiary, third-party assessments, including geo-specific and product-specific risks to be identified.

Based on the results of our analysis, we are able to determine the terms of the loan to be made to a CDFI borrower, including the principal amount, interest rate, and covenants. CNote's assessment of the CDFI's creditworthiness, the size of the CDFI, its products line-up, general economic environment and competition for capital are principal factors, among others, that are considered in the determination of the amount, interest rate and covenants of the loan we make to the CDFI. Our loans are typically made to CDFI borrowers in the form of a master promissory note, which allows them to make multiple requests for advances. If a CDFI borrower makes a request for an additional loan amount, we will re-evaluate the CDFI borrower in accordance with our underwriting process. In addition, we conduct reviews on at least a quarterly basis. If the results of our analyses differ, a CDFI borrower may receive different financial terms on subsequent draw downs.

Currently, we do not require the loans we make to CDFI borrowers to have any minimum principal amount, and, while there is no set maximum loan amount either, we consider CDFI borrowers' loan demands in light of the actual and anticipated demands of other CDFI borrowers, as well as our goal of diversifying our loans across a variety of CDFI borrowers.

We service the loans we make to CDFI borrowers in-house, using the platform we developed.

Risk Characteristics of Receivables

We extend loans to CDFI borrowers, which in turn make loans to women-led businesses, community facilities, affordable housing and other projects in under-served communities around the country. Small businesses are more sensitive to macro-economic factors, and a weakening economy will hamper the ability for a small business to meet obligations of their loans. Although our operations seek to diversify exposure by lending to a variety of CDFI borrowers, if our CDFI borrowers are unable to collect on their loans to their borrowers, our CDFIs may be unable to make payments required by the terms of our loans to them.

- At this stage, many of our loans are unsecured obligations of our CDFI borrowers. This means that, for those loans, we will not be able to foreclose on any assets of the CDFIs in

the event of their default. This may limit our recourse in the event of a default. If the CDFIs are unable to realize any collateral securing the loans that they make if a default occurs, their ability to repay CNote and, consequently our ability to repay the CNote Notes, may be adversely impacted.

- We do not currently have, or provide, third-party insurance on our loan products.

Competitive Strengths

We believe we benefit from the following competitive strengths compared to other investment alternatives:

Proprietary Technology. CNote’s four proprietary technologies have been developed and are being scaled to address the critical hurdles that prevent investors from easily and responsibly accessing CDFI investment opportunities. Each technology unlocks a critical piece of the CDFI investment opportunity and represents a critical competitive advantage in delivering CDFI impact and investment to a larger investor base.

Experienced Team. CNote’s managed team hosts a combined 40+ years finance and technology experience. The team’s co-founders have experience in traditional finance, community finance and impact investment. They have built trusted relationships and networks in each of these spaces which allows them the advantage to build new partnerships and bring in key expertise to build out future investment opportunities. In addition, our advisory board members have extensive and diverse experience in a variety of fields, including CDFIs, financial technology, and entrepreneurship. We hope to leverage their insight and relationships to hone and develop our products and strategies.

Strategic Partnerships. The Opportunity Finance Network and AERIS serve as key industry partners to CNote, providing supportive feedback, introductions, frameworks and product co-creation product opportunities. These trusted partnerships demonstrate CNote’s commitment to advancing the CDFI industry as a whole and to its demonstrated commitment to funding greater impact in underserved communities.

Impact investment is a fast-growing industry. Both U.S. Trust and the Global Impact Investing Network estimate the impact investment industry to be worth over \$77 billion in the United States, which has continued to grow each year.

RISK FACTORS

As used in this “Risk Factors” section, any reference to the words “you,” “your,” or words of similar import shall mean the prospective investor to whom this Memorandum has been provided.

Investing in the Notes is speculative and involves a high degree of risk. Before deciding whether to invest, you should consider carefully the risks and uncertainties described below and the terms of the Subscription Agreement and the Notes. If any of the following risks actually occurs, the

Company's business, financial condition, results of operations, and prospects could be adversely affected. As a result, the value of the Notes could decline, and you could lose part or all of your investment.

Risks Related to Our Industry

The lending industry is highly regulated. Changes in regulations or in the way regulations are applied to our business could adversely affect our business.

Changes in laws or regulations or the regulatory application or judicial interpretation of the laws and regulations applicable to us could adversely affect our ability to operate in the manner in which we currently conduct business or make it more difficult or costly for us to originate or otherwise make additional loans, or for us to collect payments on loans by subjecting us to additional licensing, registration, and other regulatory requirements in the future or otherwise. A material failure to comply with any such laws or regulations could result in regulatory actions, lawsuits, and damage to our reputation, which could have a material adverse effect on our business and financial condition and our ability to originate and service loans and perform our obligations to investors and other constituents.

The initiation of a proceeding relating to one or more allegations or findings of any violation of such laws could result in modifications in our methods of doing business that could impair our ability to collect payments on our loans or to acquire additional loans or could result in the requirement that we pay damages and/or cancel the balance or other amounts owing under loans associated with such violation. We cannot assure you that such claims will not be asserted against us in the future. To the extent it is determined that the loans we make to CDFIs were not originated in accordance with all applicable laws, we may be obligated to repurchase any portion of the loan we had sold to a third party. We may not have adequate resources to make such repurchases.

Worsening economic conditions or a changing political climate may result in decreased demand for our loans, cause the CDFIs' default rates to increase, and adversely affect our operating results.

Uncertainty and negative trends in general economic conditions in the United States and abroad, including significant tightening of credit markets, historically have created a difficult environment for companies in the lending industry. Many factors, including factors that are beyond our control, may have a detrimental impact on our operating performance. These factors include general economic conditions, the political climate, unemployment levels, and interest rates, as well as events such as natural disasters, acts of war, terrorism, and catastrophes. The small business borrowers the CDFIs serve may be more sensitive to these macroeconomic factors.

Domestic policy decisions could affect the economic or legal situations of CDFIs, and their borrowers. For instance, the national CDFI Fund, which provides funding and support dollars to CDFIs, may be reduced or eliminated. Similarly, regulations promulgated under the Community Reinvestment Act, if altered or repealed, could materially affect CDFIs, and their access to capital. Losing access to state or federal funding could make it more likely that CDFI borrower

would default on their obligations to us in the event they are unable to collect on the loans they make to borrowers, who may be more sensitive to macroeconomic factors.

Other industry players may begin or increase lending to CDFIs.

Although we believe our online investment platform presents a new opportunity for CDFIs to access debt financing, others are not precluded from entering, and competing in, this arena. We face potential competition from a variety of sources, including newly-formed companies or existing lenders. Competition in the financial technology sector is intense, and we may be unable to compete against other players in the financial technology sector (such as Lending Club, Funding Circle, and Prosper), commercial banks (such as Bank of America and Wells Fargo), and community banks and credit unions. Our competitors, especially banks, have substantially more resources than we do and spend millions of dollars on marketing. If we are unable to attract partners, or repeat partners, our results of operations will be adversely affected.

Competition for our employees is intense, and we may not be able to attract and retain the highly skilled employees whom we need to support our business.

Competition for highly skilled personnel, especially engineering and data analytics personnel, is extremely intense, and we could face difficulty identifying and hiring qualified individuals in many areas of our business. We may not be able to hire and retain such personnel at compensation levels consistent with our compensation and salary structure. Many of the companies with which we compete for experienced employees have greater resources than we have and may be able to offer more attractive terms of employment. In particular, candidates making employment decisions, specifically in high-technology industries, often consider the value of any equity they may receive in connection with their employment. Any significant volatility in the value, or the perceived market value, of our stock after any offering may adversely affect our ability to attract or retain highly skilled technical, financial, marketing, or other personnel.

In addition, we invest significant time and expense in training our employees, which increases their value to competitors who may seek to recruit them. If we fail to retain our employees, we could incur significant expenses in hiring and training their replacements and the quality of our services and our ability to serve our customers could diminish, resulting in a material adverse effect on our business.

Risks Related to Our Company

We are an early-stage startup with a history of net losses, and we may never become profitable.

In our fiscal year ended December 31, 2019, we had a net loss of approximately \$1.16 million. We do not expect to be profitable for the foreseeable future. If we are unable to obtain or maintain profitability, we will not be able to attract new investors, compete, or maintain operations.

We have a limited operating history in a rapidly evolving industry, which makes it difficult to evaluate our future prospects and may increase the risk that we will not be successful.

We have a limited operating history in an evolving industry that may not develop as expected. Assessing our business and future prospects is challenging in light of the risks and difficulties we may encounter. These risks and difficulties include our ability to:

- increase the number and total volume of loans and other products we extend to our partners;
- increase the number of the CDFIs to which we make loans;
- improve the terms on which we lend to the CDFIs as our business becomes more efficient;
- increase the effectiveness of our business-to-business marketing and lead generation through referral sources;
- successfully develop and deploy new products;
- favorably compete with other companies that are currently in, or may in the future enter, the business of lending money to CDFIs;
- successfully navigate economic conditions and fluctuations in the credit market;
- effectively manage the growth of our business; and
- successfully expand our business into adjacent markets.

We may not be able to successfully address these risks and difficulties, which could harm our business and cause our operating results to suffer.

We rely on capital to grow our business.

As our business scales and loan volume increases, we will require increasing amounts of capital to build our operations. We have to carefully manage capital as we are not yet profitable. Our inability to attract sufficient capital at all or on favorable terms will impact our ability to grow and remain in business.

We face potential competition from future CDFI lenders, and if we do not compete effectively, our operating results could be adversely affected.

When new competitors seek to enter one of our markets, or when existing market participants seek to increase their market share, they sometimes undercut the pricing and/or credit terms prevalent in that market, which could adversely affect our market share or ability to explore new market opportunities.

Our pricing and credit terms could deteriorate if we act to meet these competitive challenges. Further, to the extent that the fees we pay to our strategic partners and borrower referral sources are not competitive with those paid by our competitors, whether on new loans or renewals or both, these partners and sources may choose to direct their business elsewhere. Those competitive

pressures could also result in us reducing our interest rates or being more flexible on the terms we provide to CDFIs. All of the foregoing could adversely affect our business, results of operations, financial condition, and future growth.

The CNote Notes are unsecured obligations of the Company.

If we are unable to make payments required by the terms of the CNote Notes, you will have an unsecured claim against us. CNote Notes are, therefore, subject to non-payment by the Company in the event of our bankruptcy or insolvency. In an insolvency proceeding, there can be no assurances that you will recover any remaining funds. Moreover, your claim may be subordinate to that of our senior secured creditors, if any, to the extent of the value of their security interests. In the event the Company does not have sufficient capital available to repay the outstanding CNote Notes, holders of CNote Notes would be general unsecured creditors of the Company and would rank equally with other unsecured creditors of the Company. Any payments made to the Company's unsecured creditors would be made pro rata among all such other unsecured creditors, including the Holders of the CNote Notes after all senior secured creditors.

Our risk management efforts may not be effective.

We could incur substantial losses, and our business operations could be disrupted if we are unable to effectively identify, manage, monitor, and mitigate financial risks, such as credit risk, interest rate risk, liquidity risk, and other market-related risk, as well as operational risks related to our business, assets, and liabilities. To the extent our models used to assess the fiscal responsibility and performance of our CDFI borrowers do not adequately identify potential risks, the risk profile of such customers could be higher than anticipated. Our risk management policies, procedures, and techniques may not be sufficient to identify all of the risks we are exposed to, mitigate the risks that we have identified, or identify concentrations of risk or additional risks to which we may become subject in the future.

We depend on our reputation to attract interest from CDFIs and purchasers of the CNote Notes.

We depend heavily on our relationships and our reputation to attract potential CDFIs, many of whom we reach either through different CDFI coalitions or by word of mouth. If for any reason our reputation suffers, we may face difficulties attracting CDFI borrowers, which could in turn affect our ability to make loans and return capital to investors.

If our reputation suffers, we will also face difficulty in attracting additional investors in the CNote Notes. Additionally, to the extent that potential investors view our products as similar to, or interchangeable with, other alternative investment platforms or marketplace lenders (such as Lending Club, Funding Circle or Prosper), we may struggle to attract individual investors.

At this stage, many of our loans will be unsecured obligations of the CDFIs.

At this stage, many of our loans to the CDFIs are unsecured obligations. This means that, for those loans, we will not be able to foreclose on any assets of the CDFIs in the event of their default. This

may limit our recourse in the event of a default. If the CDFIs are unable to realize on any collateral securing the loans that they make if a default occurs, their ability to repay CNote and, consequently our ability to repay the CNote Notes, may be adversely impacted.

We currently rely on existing CDFIs to identify, underwrite and service quality borrowers in their respective borrower segments.

Although we conduct due diligence on potential CDFIs borrowers and continue to monitor their operations once we make loans to these CDFIs, we are nevertheless dependent on the CDFIs' ability to identify, underwrite and service borrowers in their respective segments. We cannot control their operations once loans are made. Though the loans we make to the CDFIs are full recourse to the CDFI, and while it has historically rarely happened, it is possible that a CDFI could become insolvent, shut down, or otherwise cease their operations. In these events, our ability to collect on our CDFI loans and, in turn to pay our CNote Note investors, could be compromised.

The COVID-19 outbreak may adversely affect our operating results.

On January 30, 2020, the World Health Organization declared the COVID-19 outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the COVID-19 include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. COVID-19, and actions taken to mitigate it, have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Company operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Company, COVID-19 may have a negative impact on the ability of the Company to attract new CDFIs. At this time, we are unable to predict the extent or nature of these impacts to our future financial condition and results of operations.

The collection, processing, storage, use, and disclosure of personal data could give rise to liabilities as a result of governmental regulation, conflicting legal requirements, or differing views of personal privacy rights.

We receive, collect, process, transmit, store and use a large volume of personally identifiable information and other sensitive data from investors and potential investors. There are federal, state, and foreign laws regarding privacy, recording telephone calls, and the storing, sharing, use, disclosure, and protection of personally identifiable information and sensitive data. Specifically, personally identifiable information is increasingly subject to legislation and regulations to protect the privacy of personal information that is collected, processed, and transmitted. Any violations of these laws and regulations may require us to change our business practices or operational structure, address legal claims, and sustain monetary penalties, or other harms to our business.

The regulatory framework for privacy issues in the United States and internationally is constantly evolving and is likely to remain uncertain for the foreseeable future. The interpretation and application of such laws is often uncertain, and such laws may be interpreted and applied in a manner inconsistent with other binding laws or with our current policies and practices. If either we

or our third-party service providers are unable to address any privacy concerns, even if unfounded, or to comply with applicable laws and regulations, it could result in additional costs and liability, damage our reputation, and harm our business.

We rely on third-party service providers to deliver many of our services. Any disruption in services from these service providers, including any disruption of service at their data centers, could interrupt or delay our ability to deliver our service to the holders of the CNote Notes and the CDFIs.

We currently use third-party service providers, such as Dwolla, to handle many components of our operations. These service providers may themselves rely on third-party data center hosting facilities. The continuous availability of our service depends on the operations of these service providers, on data facilities, on a variety of network service providers, on third-party vendors, and on data center operations staff. In addition, we depend on the ability of our third-party providers to protect the facilities against damage or interruption from natural disasters, power or telecommunications failures, criminal acts, and similar events. If there are any lapses of service or damage to the facilities, we could experience lengthy interruptions in our service as well as delays and additional expenses in arranging new service providers and services. Even with current disaster recovery arrangements, our business could be harmed.

Design and mechanical errors or failure to follow operations protocols and procedures could cause our systems to fail, resulting in interruptions in our platform. Any such interruptions or delays, whether as a result of third-party error, our own error, natural disasters, or security breaches, whether accidental or willful, could harm our relationships with customers and cause our revenue to decrease and/or our expenses to increase. Also, in the event of damage or interruption, our future insurance policies may not adequately compensate us for any losses that we may incur. These factors in turn could further reduce our revenue and subject us to liability, which could materially adversely affect our business.

As we rely heavily on our servers, computer and communications systems and the Internet to conduct our business and provide high-quality customer service, any such disruptions could negatively impact our ability to run our business and cause lengthy delays in providing needed services which could adversely affect our business, results of operation and financial condition.

We are reliant on the efforts of our management team.

We rely on our management team and need additional key personnel to grow our business, and the loss of key employees or inability to hire key personnel could harm our business. We believe our success has depended, and continues to depend, on the efforts and talents of our executives and employees.

All of our employees are at-will and can leave us at any time.

Our future success depends on our continuing ability to attract, develop, motivate, and retain highly qualified and skilled employees. Qualified individuals are in high demand, and we may incur significant costs to attract and retain them. In addition, the loss of any of our senior management

or key employees could materially adversely affect our ability to execute our business plan and strategy, and we may not be able to find adequate replacements on a timely basis, or at all. Our executive officers and other employees are at-will employees, which means they may terminate their employment relationship with us at any time, and their knowledge of our business and industry would be extremely difficult to replace. We cannot ensure that we will be able to retain the services of any members of our senior management or other key employees. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, our business could be materially and adversely affected.

We have a small number of employees, each of whom is important to our success.

We have only seven full-time and one part-time employees. Each of them plays a significant role in our success. Our team covers the following functional duties: engineering and programming, sales and marketing, finance and credit, legal and regulatory, and administration and operations. The loss of any of our employees could have a material adverse impact on our operations. Additionally, because each employee plays such a critical role in a company of this size, any instances of human error or exercises of poor business judgment could negatively impact our company.

We do not currently have a backup, outside servicing firm to service partner payments.

We currently service all of our loans and although we are evaluating a contract with a potential partner, do not have a backup outside servicer at this time. Loan servicing is an increasingly regulated industry, with various federal and state laws governing the collection of consumer and small business loans, and none of our employees currently devote all of their time to our loans as their time is divided among many responsibilities. Although we are in the process of evaluating potential options, we currently do not have a ready backup servicer in the event that we are suspended from servicing, or are suddenly unable to service our loans. Our failure to comply with applicable regulations, or our inability to service loans, would adversely affect our operations.

Compliance with Regulation A and reporting to the SEC could be costly.

Compliance with Regulation A could be costly and requires legal and accounting expertise. Because the new rules implementing Title IV of the Jumpstart Our Business Startups Act of 2012 took effect in June 2015, we have limited experience complying with the new provisions of Regulation A or making the public filings required by the rule. Besides qualifying this Form 1-A, we must file an annual report on Form 1-K, a semiannual report on Form 1-SA, and current reports on Form 1-U.

Our legal and financial staff may need to be increased in order to comply with Regulation A. Compliance with Regulation A will also require greater expenditures on outside counsel, outside auditors, and financial printers in order to remain in compliance. Failure to remain in compliance with Regulation A may subject us to sanctions, penalties, and reputational damage and would adversely affect our results of operations.

If we are deemed to be an investment company, we may be required to institute burdensome compliance requirements, our activities may be restricted, and this offering may be invalidated.

We do not believe that at any time we will be deemed to be an “investment company” under the Investment Company Act of 1940, as amended (the “1940 Act”), as we do not intend on trading or selling securities and thus believe we are exempt pursuant to Section 3(b)(1) of the 1940 Act. However, if at any time we are deemed an “investment company” we may be subject to certain restrictions on our operations and the issuance of CNote Notes, and may have imposed upon us certain burdensome requirements, including registration as an investment company, adoption of a specific form of corporate structure, and reporting, recordkeeping, voting, proxy, compliance policies and procedures, as well as additional disclosure requirements. Additionally, as Regulation A is not available to companies that are investment companies registered under, or required to be registered under, the 1940 Act, in the event that we were deemed to be an investment company, the offering, and the CNote Notes sold pursuant to this offering, may be invalidated.

Investors must consent to the jurisdiction of the State of California for most claims.

The Form of CNote Note requires investors to consent to the jurisdiction of the state courts located within San Francisco County, California, the location of the Company’s principal office. Investors located outside the State of California may have difficulty bringing any legal claim against us due to geographic limitations and may find it difficult and costly to respond to claims. This choice of forum provision may limit a holder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, a court could find this provision of our Form of CNote Note to be inapplicable or unenforceable in respect of one or more of the specified types of actions or proceedings, which may require us to incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business and financial condition.

THIS EXCLUSIVE FORUM PROVISION WOULD NOT APPLY TO SUITS BROUGHT TO ENFORCE A DUTY OR LIABILITY CREATED BY THE SECURITIES ACT, EXCHANGE ACT OR ANY OTHER CLAIM FOR WHICH THE U.S. FEDERAL COURTS HAVE EXCLUSIVE JURISDICTION.

Our Terms of Use require holders of the CNote Notes to submit any dispute to binding arbitration and limit the ability of holders to bring class action lawsuits or seek remedies on a class basis.

By purchasing the CNote Notes in this offering, you agree to be bound by the arbitration and class action waiver provisions contained in our Terms of Use (available at <https://www.mycnote.com/TOS>), and by extension the CNote Notes. Pursuant to the Terms of Use, the holders of CNote Notes and the Company will agree to (i) resolve disputes, controversies and claims of the holders of CNote Notes through binding arbitration instead of through courts of general jurisdiction or through a class action and (ii) waive the right to participate in any class action or joint arbitration. While mandatory arbitration provisions in commercial agreements may not be respected by federal courts and state courts of California, we believe that the arbitration

provision in the Terms of Use is enforceable under federal law and the laws of the State of California. As a result, you may not be able to pursue litigation for disputes regarding the CNote Notes in state or federal courts against us or our directors or officers, and any awards or remedies determined by the arbitrators may not be appealed. In addition, arbitration rules generally limit discovery, which could impede your ability to bring or sustain claims, and the ability to collect attorneys' fees or other damages may be limited in the arbitration, which may discourage attorneys from agreeing to represent parties wishing to commence such a proceeding. THE ARBITRATION PROVISIONS OF THE TERMS OF USE ARE NOT INTENDED TO BE DEEMED A WAIVER BY ANY HOLDER OF CNOTE NOTES OF THE COMPANY'S COMPLIANCE WITH THE U.S. FEDERAL SECURITIES LAWS AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER. THE ARBITRATION PROVISIONS OF THE TERMS OF USE DO NOT APPLY TO CLAIMS BROUGHT UNDER THE EXCHANGE ACT AND SECURITIES ACT.

The Terms of Use provide that the Company and the holders of the CNote Notes will waive the right to class action of any claim they may have against us arising out of or relating to our CNote Notes or the Subscription Agreement. If we were to oppose a class action demand based on such waiver, the court would determine whether the waiver was enforceable based upon the facts and circumstances of that case in accordance with applicable state and federal law, including whether a party knowingly, intelligently and voluntarily waived the right to class action. These restrictions on the ability to bring a class action lawsuit may result in increased costs and/or reduced remedies, to individual investors who wish to pursue claims against the Company. The holders of the CNote Notes will be subject to these provisions of the Terms of Use to the extent permitted by applicable law. THE WAIVER OF THE RIGHT TO CLASS ACTION CONTAINED IN THE TERMS OF USE IS NOT INTENDED TO BE DEEMED A WAIVER BY ANY HOLDER OF CNOTE NOTES OF THE COMPANY'S COMPLIANCE WITH THE U.S. FEDERAL SECURITIES LAWS AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER. THE CLASS ACTION WAIVER PROVISION OF THE TERMS OF USE DOES NOT APPLY TO CLAIMS BROUGHT UNDER THE EXCHANGE ACT AND SECURITIES ACT.

Risks Related to CNote Notes

Holders of CNote Notes are exposed to the credit risk of the Company.

CNote Notes are our full and unconditional obligations. If we are unable to make payments required by the terms of the CNote Notes, you will have an unsecured claim against us. CNote Notes are therefore subject to non-payment by the Company in the event of our bankruptcy or insolvency. In an insolvency proceeding, there can be no assurances that you will recover any remaining funds. Moreover, your claim may be subordinate to that of our senior secured creditors to the extent of the value of their security interests. Holders of CNote Notes would be ranked equally with other unsecured creditors of the Company and payments, if any, would be made pro rata with all such other unsecured creditors of the Company before any class of equity holder but after all senior secured creditors.

Holders of CNote Notes are exposed to the credit risk of the CDFI borrowers.

We make loans to CDFIs, which in turn make loans in the communities underserved by traditional financial institutions. Although our operations seek to diversify exposure by investing in a variety of CDFIs, if the CDFIs are unable to collect on their loans and are unable to make payments required by the terms of our loans to them, we may be unable to make payments required by the terms of the CNote Notes. As described above, you would then have an unsecured claim against us.

We currently have made loans to a limited number of CDFIs.

We currently have made loans to 16 CDFIs. Thus, our loans are concentrated in a limited number of borrowers, and the holders of the CNote Notes are subject to risks resulting from this lack of diversification. Any single CDFI's negative performance could have an adverse effect on our performance. There can be no assurance that we will be able to identify or attract a greater number of CDFI borrowers to enhance the diversification.

There has been no public market for CNote Notes, and none is expected to develop.

CNote Notes are newly issued securities. Although under Regulation A the securities are not restricted, CNote Notes are currently not liquid securities. No public market has developed nor is expected to develop for CNote Notes, and we do not intend to list CNote Notes on a national securities exchange or interdealer quotation system. You should be prepared to hold your CNote Notes through their maturity dates as CNote Notes currently are not liquid investments, nor do we anticipate that they will be a liquid investment at any time in the foreseeable future.

Exhibit A – Definitions

As used in this Memorandum, the following capitalized terms shall have the meaning set forth below:

“**CDFI partner**” means a Community Development Financial Institution with which the Company has a contractual relationship.

“**CNote,**” “**Company,**” “**us,**” “**our,**” and “**we**” mean CNote Group, Inc., a Delaware corporation.

“**Investment Products**” means the debt investment products available to our investors via the Platform, including the Notes.

“**Memorandum**” means this confidential Private Placement Memorandum, as amended from time to time.

“**Notes**” or “**Securities**” mean the Adjustable Promissory Note made available to prospective investors as part of this Offering, in the form attached hereto as Exhibit B.

“**Offering**” means the private offering, sale, and issuance of the Notes, as contemplated hereby, pursuant to Rule 506(c) of Regulation D promulgated under the Securities Act.

“**Offering Documents**” means this Memorandum, the Notes, and the Subscription Agreement.

“**Platform**” shall mean www.mycnote.com or such other website provided by the Company for investors to purchase the Notes.

“**Securities Act**” means the Securities Act of 1933, as amended.

“**Subscription Agreement**” means the Subscription Agreement attached hereto as Exhibit C.

Exhibit B – Form of Adjustable Rate Promissory Note

(see attached)

Exhibit C – Form of Subscription Agreement

(see attached)