

**Flagship Fund Offering Circular**  
**Qualified by the SEC December 22, 2023 12:00 P.M. EST**  
**[SEC Notice of Qualification](#)**  
**SEC File No. [024-12344](#)**

**CNOTE GROUP, INC.**

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*This Offering Circular Follows the Form 1-A Disclosure Format*

CNote Group, Inc., a Delaware public benefit corporation (“CNote”, the “Company”, “us” or “we”), is seeking to raise up to \$50,000,000 through the sale of promissory notes (the “Notes”) to the public in what we refer to as the “Offering.” You can read a complete description of the Notes in “SECURITIES BEING OFFERED.” We refer to individuals and entities that purchase Notes as “Investors.”

The Offering has no minimum amount. That is, we will have the right to deploy the capital we raise as soon as we raise it, without waiting until we have raised any minimum amount.

The Offering will begin as soon as our offering statement is “qualified” by the SEC. The Offering will end upon the earlier of (i) the date we have sold \$50,000,000 of Notes, (ii) a date determined by the Company in its sole discretion; or (iii) the date the Offering is required to terminate by law.

We are selling these securities directly to the public at our website, <https://www.mycnote.com> (the “Platform”). We are not using a placement agent, or a broker and we are not paying commissions to anyone. All the money we raise goes directly to the Company. For example:

<i>Security</i>	<i>Price to Public</i>	<i>Underwriting Discounts and Commissions</i>	<i>Proceeds to Issuer</i>	<i>Proceeds to Other Persons</i>
\$1.00 Note	\$1.00	\$0	\$1.00	\$0
Total	\$50,000,000	\$0	\$50,000,000	\$0

**Investing in our Notes is speculative and involves substantial risks, including the risk that you could lose all your money. Before investing, you should carefully review “RISKS OF INVESTING.”**

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THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION DOES NOT PASS UPON THE MERITS OF OR GIVE ITS APPROVAL TO ANY SECURITIES OFFERED OR THE TERM OF THE OFFERING. NOR DOES IT PASS UPON THE ACCURACY OR COMPLETENESS OF ANY OFFERING CIRCULAR OR OTHER SELLING LITERATURE. THESE SECURITIES ARE OFFERED PURSUANT TO AN EXEMPTION FROM REGISTRATION WITH THE COMMISSION; HOWEVER, THE COMMISSION HAS NOT MADE AN INDEPENDENT DETERMINATION THAT THE SECURITIES OFFERED HEREUNDER ARE EXEMPT FROM REGISTRATION.

GENERALLY, NO SALE MAY BE MADE TO YOU IN THIS OFFERING IF THE AGGREGATE PURCHASE PRICE YOU PAY IS MORE THAN 10% OF THE GREATER OF YOUR ANNUAL INCOME OR NET WORTH. DIFFERENT RULES APPLY TO ACCREDITED INVESTORS AND NON-NATURAL PERSONS. BEFORE MAKING ANY REPRESENTATION THAT YOUR INVESTMENT DOES NOT EXCEED APPLICABLE THRESHOLDS, WE ENCOURAGE YOU TO REVIEW RULE 251(d)(2)(i)(C) OF REGULATION A. FOR GENERAL INFORMATION ON INVESTING, WE ENCOURAGE YOU TO REFER TO WWW.INVESTOR.GOV. FOR MORE INFORMATION, SEE "LIMITS ON HOW MUCH NON-ACCREDITED INVESTORS CAN INVEST."

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

**NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION UNIFORM LEGEND:**

YOU SHOULD MAKE YOUR OWN DECISION WHETHER THIS OFFERING MEETS YOUR INVESTMENT OBJECTIVES AND RISK TOLERANCE LEVEL. NO FEDERAL OR STATE SECURITIES COMMISSION HAS APPROVED, DISAPPROVED, ENDORSED, OR RECOMMENDED THIS OFFERING. NO INDEPENDENT PERSON HAS CONFIRMED THE ACCURACY OR TRUTHFULNESS OF THIS DISCLOSURE, NOR WHETHER IT IS COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS ILLEGAL.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. 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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## SUMMARY OF OUR BUSINESS

### OUR MISSION

CNote is a women-led business on a mission to close the wealth gap through financial innovation. Using the power of technology and a community-first framework, CNote enables individuals and institutions to efficiently invest locally at scale in fixed income and deposit solutions that advance economic equality, financial inclusion, racial justice, gender equity, and climate change initiatives. With the aim of closing the wealth gap, CNote's fixed income and depository solutions provide a diversified and scalable way to support job creation, small business growth, affordable housing development, and lasting economic growth in underserved communities across the United States, through relationships with community finance organizations ("CFOs"), primarily Community Development Financial Institutions certified by the U.S. Department of the Treasury's CDFI Fund ("CDFIs").

### CDFIs

CDFIs were created by the Riegle Community Development and Regulatory Improvement Act of 1994 to promote economic development in distressed urban and rural communities.<sup>1</sup> Financial institutions that wish to become CDFIs must meet specified eligibility criteria, such as demonstrating that their primary mission is to promote community development by serving economically distressed people and places.<sup>2</sup> Over the last nearly three decades, CDFIs have grown to become an approximately \$222 billion industry with more than 1,300 certified CDFIs nationwide, making loans to borrowers such as schools, community centers, affordable housing developments and minority- and women-owned businesses.<sup>3</sup> In recent years CDFIs have gained significant prominence, owing to the pivotal role they played in supporting communities during the COVID-19 pandemic through, among other things, a special allocation of lending capital in the Paycheck Protection Program and Health Care Enhancement Act of 2020. While the CDFI industry has garnered increased attention, it remains crucial for CDFIs to have access to a variety of capital sources to sustain their operations and fulfill their mission effectively.

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<sup>1</sup> U.S. Department of the Treasury. "Community Development Financial Institutions Fund," [http://www.cdfifund.gov/who\\_we\\_are/about\\_us.asp](http://www.cdfifund.gov/who_we_are/about_us.asp).

<sup>2</sup> CDFI Fund, "CDFI Certification," <https://www.cdfifund.gov/programs-training/certification/cdfi>.

<sup>3</sup> Opportunity Finance Network. "What Is a CDFI? - OFN." OFN, March 3, 2023. <https://www.ofn.org/what-is-a-cdfi/#:~:text=There%20are%20more%20than%201%2C300,than%20390%20are%20OFN%20members>.

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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 2021 report by the Opportunity Finance Network (“OFN”), the national association for CDFIs, 280 CDFIs who participated in the survey created or maintained over 2,600,000 jobs, started or expanded more than 696,000 businesses, and supported the development or rehabilitation of more than 2,300,000 housing units and more than 13,600 community facility projects.<sup>4</sup>

CFOs, including CDFIs, raise capital from a variety of sources, including but not limited to financial institutions, government agencies, religious institutions, foundations, and individuals, but rely primarily on institutional investors such as banks and foundations. The Company believes there is an opportunity for individual investors to support these vital community lenders.

## **TWO COMPONENTS OF OUR BUSINESS**

Our business has two principal components:

- *Lending Business:* We lend money directly to CFOs, using the capital we raise from investors. The Company has made loans to 40 CFOs since inception, in the aggregate principal amount of \$118 million and received a total of approximately \$47 million in payments. The Company makes a profit on the difference between the interest it charges to CFO borrowers and the interest it pays to investors.
- *Depository Business:* We provide proprietary data about CFOs to clients, which rely on our data to open interest-bearing accounts at CFOs. Since inception, our clients have made approximately \$190 million in such deposits. The Company earns fees for providing this service.

*That is Only a Summary*

*See “OUR COMPANY AND BUSINESS” for More Information*

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<sup>4</sup> Opportunity Finance Network. “CDFI Impact Across America.” OFN, January 18, 2023. <https://www.ofn.org/cdfi-impact/>.

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## **A WARNING ABOUT FORWARD-LOOKING STATEMENTS**

The term “forward-looking statements” means any statements, including financial projections, that relate to events or conditions in the future. Often, forward-looking statements include words like “we anticipate,” “we believe,” “we expect,” “we intend,” “we plan to,” “this might,” or “we will.” The statement “We believe interest rates will rise” is an example of a forward-looking statement.

Forward-looking statements are, by their nature, subject to uncertainties and assumptions. The statement “We believe interest rates will rise” is not like the statement “We believe the sun will rise in the East tomorrow.” It is impossible for us to know exactly what is going to happen in the future, or even to anticipate all the things that could happen. Our business could be subject to many unanticipated events, including all the things we talk about in “RISKS OF INVESTING.”

Consequently, the actual result of investing in the Company could (and almost certainly will) differ from those anticipated or implied in any forward-looking statement, and the differences could be both material and adverse. We do not undertake any obligation to revise, or publicly release the results of any revision to, any forward-looking statements, except as required by applicable law.

**GIVEN THE RISKS AND UNCERTAINTIES, PLEASE DO NOT PLACE UNDUE RELIANCE ON ANY FORWARD-LOOKING STATEMENTS.**

## RISKS OF INVESTING

BUYING NOTES IS SPECULATIVE AND INVOLVES SIGNIFICANT RISK, INCLUDING THE RISK THAT YOU COULD LOSE SOME OR ALL OF YOUR MONEY. THIS SECTION DESCRIBES WHAT WE BELIEVE ARE THE MOST SIGNIFICANT RISK FACTORS AFFECTING THE COMPANY AND ITS INVESTORS. THE ORDER IN WHICH THESE FACTORS ARE DISCUSSED IS NOT INTENDED TO SUGGEST THAT SOME FACTORS ARE MORE IMPORTANT THAN OTHERS.

**YOU MIGHT LOSE YOUR MONEY:** When you buy a certificate of deposit from a bank, the federal government (through the FDIC) guarantees you will get your money back up \$250,000 per banking institution. Buying our Notes is not like that at all. The ability of the Company to make payments to you depends on several factors, including some beyond our control. Nobody guarantees that you will receive payments, and you might lose some or all your money.

**THE NOTES ARE UNSECURED AND NOT GUARANTEED:** The Notes are not secured by any collateral and not guaranteed by anyone (other than the Company itself). That means that if the Company defaults, Investors would not be able to look to any specific assets of the Company or to any other party for repayment, and the claims of Investors would be subordinate to the claims of secured lenders.

**OUR LOANS TO CFOs ARE ALSO UNSECURED AND UNINSURED:** Similarly, our loans to CFOs are also unsecured. If a CFO defaults we will have to stand in line with other unsecured creditors. Nor do we carry insurance on our loans.

**LACK OF DIVERSIFICATION:** Although the Company is trying to expand its pool of borrowers, to date it has loaned money to only 40 CFOs. Each of those CFOs has, in turn, a finite and limited number of customers/borrowers. As a result, our risk is more concentrated than it would be with a larger pool.

**CREDIT RISK OF THE CFO BORROWERS.** We make loans to CFOs, 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 CFOs, if the CFOs 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 Notes.

**OUR DUE DILIGENCE PROCESS MIGHT PROVE TO BE INADEQUATE:** Although we perform significant due diligence on prospective borrowers, due diligence is as much an art as a science and cannot guarantee that our borrowers will repay their loans. For one thing, there is simply no way to review every possible factor. For another thing, information could be hidden from us, either intentionally or unintentionally. Finally, it is possible that we would reach incorrect conclusions from the information presented to us.

**THE NOTES MAY BE CALLED BY THE COMPANY:** Although the Notes have a stated maturity of 30 months, the Company may “call” them at any time, meaning the Company may pre-pay the outstanding principal and interest and cancel the Note. This means an Investor would not earn the stated rate of interest for as long as the Investor might have expected when buying the Note.

**YOUR RIGHT TO DEMAND PAYMENT BEFORE MATURITY IS SUBJECT TO LIMITS:** Each calendar quarter an Investor may, by giving notice 30 days prior notice to the Company, elect to receive a payment no greater than 10% of the outstanding principal. However, the Company may limit such requests depending on available funds.

**RISK OF REGULATION:** 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. Further, if it were determined that we had not complied with all applicable laws and regulations, it could make us unable to enforce a loan obligation and/or make us liable for damages. Similarly, regulations promulgated under the Community Reinvestment Act, if altered or repealed, could materially affect CFOs, and their access to capital.

**RISK OF WEAKENING ECONOMY:** 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, pandemics, and catastrophes. The small business borrowers served by our borrowers may be more sensitive to these macroeconomic factors.

**COMPETITION:** We face potential competition from a variety of sources, including newly-formed companies and 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 investors, clients, partners, or repeat partners, our results of operations will be adversely affected.



**NEED TO ATTRACT AND RETAIN QUALIFIED PERSONNEL:** 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.

**WE HAVE A HISTORY OF LOSING MONEY:** In our fiscal year ended December 31, 2022, we had a net loss of approximately \$2.4 million. We might not 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:** We have a limited operating history in an evolving fintech 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 volume of our loans;
- Increase the number of our borrowers;
- Improve the financial terms for our borrowers;
- Develop new products and services;
- Compete with other companies;
- Navigate economic conditions and fluctuations in the credit market;
- Manage growth;
- Develop technology systems;
- Adopt new technologies, such as artificial intelligence;
- Maintain financial controls;

- Attract and retain qualified personnel; and
- Expand our business into adjacent markets.

**WE RELY ON 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.

**WE HAVE A SMALL NUMBER OF EMPLOYEES, EACH OF WHOM IS IMPORTANT TO OUR SUCCESS, AND EACH OF WHOM CAN LEAVE AT ANY TIME:** We have only 20 full-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. Our 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 WILL REQUIRE MORE CAPITAL:** Even if we raise the full amount we are trying to raise in this Offering, we will need more capital. There is no guaranty that we will be able to raise all the capital we need on terms that make financial sense, or at all. If we fail to raise the capital we need, our business will suffer and could ultimately fail.

**OUR RISK MANAGEMENT EFFORTS MIGHT 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 borrowers do not adequately identify potential risks, the risk profile of such borrowers 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.

**OUR ALLOWANCE FOR LOAN LOSSES MIGHT PROVE INADEQUATE:** We have established a loan loss reserve of approximately 1% of the principal amount of loans outstanding, which may not be adequate.

**RISKS OF REPUTATIONAL DAMAGE:** We depend heavily on our relationships and our reputation to attract borrowers and large financial institutions, many of whom we reach through word of mouth. If for any reason our reputation is damaged it could have a significant adverse effect. We could also face difficulty in attracting additional investors and raising capital.

**RISKS ARISING FROM PERSONAL INFORMATION:** 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.

**RISKS FROM USING THIRD PARTIES:** 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.

**WE DO NOT HAVE A BACKUP LOAN SERVICER:** Currently we service all of our loans and do not have a backup outside servicer. 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. Should we go out of business, the lack of an available servicer could cause delays in obtaining payments from borrowers.

**FUTURE SECURITIES COULD HAVE SUPERIOR RIGHTS:** The Company might issue securities in the future that have rights superior to the rights associated with the Notes. For example, the Company could issue a class of debt securities that are secured by assets of the Company.

**SEC REGULATION AND OVERSIGHT:** This Offering is being conducted pursuant to Regulation A. Regulation A allows the offer and sale of unregistered securities (that is, securities that have not been fully registered with the SEC under section 5 of the Act) if, and only if, specific requirements are met. We are confident that this Offering satisfies the requirements of Regulation A. However, the SEC oversees all Regulation A offerings; as such, the SEC has the authority to suspend (temporarily or permanently) any Regulation A offering if it suspects or determines that there have been material violations of Regulation A's requirements. Were that to happen, the Company's ability to raise additional capital (under either Regulation A or other provisions of the federal securities laws) could be substantially impaired or even precluded completely.

**RISKS OF INVESTMENT COMPANY ACT:** We do not believe we will be deemed to be an “investment company” under the Investment Company Act of 1940 because we do not intend to hold or trade securities. If we were 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.

**CHOICE OF VENUE:** By purchasing a Note, Investors consent to the jurisdiction of the state courts located within San Francisco County, California, near the location of the Company’s principal office in Oakland, California. 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 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 FEDERAL SECURITIES LAWS OR ANY OTHER CLAIM FOR WHICH THE U.S. FEDERAL COURTS HAVE EXCLUSIVE JURISDICTION.

**MANDATORY ARBITRATION AND CLASS ACTION WAIVER:** By purchasing a Note, Investors consent to (i) resolve all disputes, controversies and claims through binding arbitration instead of through the court system, and (ii) waive the right to participate in any class action or joint arbitration. Arbitration could be less beneficial to you than litigation in courts (although it is generally impossible to know that in advance), and the inability to participate in a class action could be disadvantageous to you. For example, it might not be economically feasible for you to bring a case on your own.

THESE PROVISIONS WOULD NOT APPLY TO SUITS BROUGHT TO ENFORCE A DUTY OR LIABILITY CREATED BY FEDERAL SECURITIES LAWS.

**LIMITS ON TRANSFERABILITY:** There are several limitations on your ability to sell your Note:

- Notes may not be transferred with the Company’s consent, which may be withheld in the Company’s sole discretion.
- There is no public market for the Notes and such a market is unlikely to develop.

- The Company does not intend to list the Notes on a national securities exchange or interdealer quotation system.
- Securities laws could limit your ability to sell your Notes.

Consequently, you should be prepared to hold your Note until maturity.

**RISK OF FAILURE TO COMPLY WITH SECURITIES LAWS:** The Company has previously sold securities relying on the exemption under Rule 506 of Regulation D issued by the Securities and Exchange Commission as well as Regulation A. In all cases, we have relied on the advice of securities lawyers and believe we qualify for the exemption. If we did not qualify, we could be liable to penalties imposed by the federal government and state regulators, as well as to lawsuits from investors.

**REDUCED DISCLOSURE REQUIREMENTS UNDER THE JOBS ACT:** The Notes are being offered pursuant to Tier 2 of Regulation A issued by the SEC, as amended pursuant to the Jumpstart Our Business Startups Act of 2012 (known as the “JOBS Act”). Regulation A does not require us to provide you with all of the information that would be required in a registration statement in connection with an initial public offering (IPO) of securities. As a Regulation A issuer, we are also not subject to the same level of ongoing reporting obligations as a typical public reporting company, including, but not limited to, many of the disclosure requirements applicable to public reporting companies under the Securities Exchange Act of 1934.

**WE ARE NOT SUBJECT TO THE CORPORATE GOVERNANCE REQUIREMENTS THAT APPLY TO COMPANIES LISTED ON A NATIONAL EXCHANGE:** Companies whose securities are listed on a national stock exchange (for example, the New York Stock Exchange) are generally subject to a number of rules about corporate governance that are intended to protect investors. For example, the major U.S. stock exchanges require listed companies to have an audit committee made up entirely of independent members of the board of directors (*i.e.*, directors with no material outside relationships with the company or management), which is responsible for monitoring the Company’s compliance with the law. As of the date of this Offering Statement, neither the Notes nor any other securities of the Company are listed on a national exchange, and it is likely that our securities will never be listed on a national exchange. Accordingly, you may not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of a national exchange.

**BREACHES OF SECURITY:** It is possible that our systems would be “hacked,” leading to the theft or disclosure of confidential information you have provided to us. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until they are launched, we and our vendors may be unable to anticipate these techniques or to implement adequate defensive measures.

THE FOREGOING ARE NOT NECESSARILY THE ONLY RISKS OF INVESTING  
PLEASE CONSULT WITH YOUR PROFESSIONAL ADVISORS

## OUR COMPANY AND BUSINESS

CNote is a women-led public benefit corporation. Our Certificate of Incorporation states that our public benefit is “to advance greater economic and social justice for underserved communities by unlocking access to impact investments.”

Using the power of technology and a community-first framework, CNote enables individuals and institutions to efficiently invest locally at scale in fixed income and deposit solutions that advance economic equality, financial inclusion, racial justice, gender equity, and climate change initiatives. With the aim of closing the wealth gap, CNote’s fixed income and depository solutions provide a diversified and scalable way to support job creation, small business growth, affordable housing development, and lasting economic growth in underserved communities across the United States, mainly through relationships with CFOs, primarily CDFIs.

From inception through June 30, 2023, we have offered approximately \$118 million in loans to CFOs, and our clients have made approximately \$190 million in deposits with CFOs.

CNote’s goal is to leverage its online platform to (1) make loans to CFOs, which in turn lend to under-resourced communities; and (2) help clients open interest-bearing deposits, called Impact Cash<sup>®</sup>, at CFOs.

To support its loan operations and services, the Company developed proprietary servicing and portfolio management technology, designed an underwriting process for CFO borrowers, and created a database of aggregated historical data on the CFO sector. To evaluate the impact of CFOs’ activities, the Company developed a proprietary impact reporting framework and impact reporting management system. The Company is exploring broader commercial applications for its software and data. The Company believes the wider use of technology in the impact investing and community finance sector can result in more efficient, timely capital deployment, and more targeted impact in underserved communities around the country.

CNote has been certified as a “B Corp” by B Lab, a non-profit company that measures a company’s social and environmental performance. B Lab provides certification based on:

- *Accountability*: Directors must consider the company’s impact on all shareholders.
- *Transparency*: B Corps must publish and make public a report of their social and environmental performance; this report is assessed by a neutral, third-party standard.
- *Performance*: B Corps must attain a minimum score on the B Impact Assessment test and re-certify every two years.

## MARKET TRENDS

The Company believes it will benefit from several market trends:

- 1) *CFOs Need Access to Private Capital*: The community finance industry continues to experience significant growth and yet does not have the capital it needs to fund all of the quality projects the industry aims to serve, including schools, community centers and minority-run businesses. The amount available from possible grants and awards is not sufficient to satisfy CFOs' funding needs. In addition, CFOs must raise private sector funds to even qualify for certain awards.<sup>5</sup> The need for private capital is exacerbated when federal programs experience budget cuts or changes in eligibility requirements.<sup>6</sup>
- 2) *The Impact Investment Industry has been Growing Rapidly*: In 2022, the Global Impact Investing Network reported that the size of the impact investing market reached a significant milestone and exceeded \$1 trillion in assets under management.<sup>7</sup> However, currently available impact investment products are subject to two central limitations. One, many impact investment opportunities are reserved for accredited investors only. Two, the majority of available impact options do not offer a competitive return and, as a result, would-be investors are required to evaluate the trade-off between earning an acceptable return and making a positive social impact.

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<sup>5</sup> Brett Theodos and Eric Hangen, Tracking the Unequal Distribution of Community Development Funding in the U.S., Urban Institute, January 31, 2019, <https://www.urban.org/sites/default/files/publication/99704/>

<sup>6</sup> Department of the Treasury, Office of Inspector General, Audit of the Community Development Financial Institutions Fund's Financial Statements for Fiscal Years 2021 and 2020, December 15, 2021, [https://www.cdfifund.gov/sites/cdfi/files/2021-12/FY2021\\_Agency\\_Financial\\_Report.pdf](https://www.cdfifund.gov/sites/cdfi/files/2021-12/FY2021_Agency_Financial_Report.pdf)

<sup>7</sup> Hand, D., Ringel, B. Danel, A. (2022) Sizing the Impact Investing Market: 2022. The Global Impact Investing Network (GIIN). New York. <https://thegiin.org/assets/2022-Market%20Sizing%20Report-Final.pdf>

- 3) *Increasing Demand for Impact Investment Opportunities:* Overall, there is growing interest in impact investing across demographic groups, driven by a desire to make a positive difference in the world while also achieving financial returns. Interest in impact investing is not showing any signs of slowing down, especially as millennials gradually take over a greater share of wealth, according to a survey conducted by Artemis Strategy Group, an independent research firm, on behalf of Fidelity Charitable, examining 1,216 individuals who have a minimum of \$25,000 in investable assets outside of an employer retirement plan.<sup>8</sup> The findings show that 61% of millennials are already utilizing values-based investing strategies. Further, one-third of all investors engage in impact investing currently, and 40% who are not currently utilizing this strategy are considering making their first impact investment in the next year.

#### **OUR LOANS TO CFOs**

From inception through June 30, 2023, the Company has made loans to 40 CFOs in the aggregate principal amount of \$118 million and received a total of approximately \$47 million in payments. At any given time, we are in discussions with 1-5 additional CFOs regarding possible lending relationships. We plan to expand our pool of potential borrowers to include not just CDFIs but also other mission-driven institutions, including community development corporations and green banks, that use innovative and responsive products and services to support under-resourced communities.

Currently, the majority of the loans made by CFO borrowers go to minority-owned and women-owned businesses, affordable housing, and community facilities such as early child care centers and rehabilitation facilities.

To fund our loans to CFOs, we raise capital from investors, as we are doing in this Offering. We offer fixed-income investments to institutional, accredited, and non-accredited investors. Accredited investors can invest in offerings under SEC Regulation D, while non-accredited investors can invest in offerings under Regulation A, like this Offering.

Under our business model for our loans, we generate revenue by retaining the difference between the interest rate we charge the CFO borrowers and the interest paid to our investors. The interest rates we charge our CFO borrowers and the interest rates of CNote fixed income investments are reviewed by management, in view of a variety of macroeconomic and market conditions, including the federal interest rate environment, fluctuations in the cost of capital averages for CFOs, and the economics facing the Company. We also consider the competitiveness of CNote loans as compared to rates offered by other loan products in the marketplace.

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<sup>8</sup> Fidelity Charitable. "Millennial Investors Drive Growth in Impact Investing," n.d. <https://www.fidelitycharitable.org/about-us/news/millennial-investors-drive-growth-in-impact-investing.html>.



Our credit policy targets potential community finance organization borrowers with high creditworthiness and a stable financial position. In order to borrow from CNote, potential community finance organization borrowers must display characteristics indicative of a healthy loan portfolio and a durable financial position. We review financial and portfolio variables like repayment rates, loan delinquencies, loan loss reserves, credit enhancements and guarantees, team and board composition, lending and operational policies among others. Additionally, our community finance organization borrowers are required to provide audited financials and impact data about their operational and lending activities.

The loans we make to community finance organization borrowers are full recourse to the community finance organization borrowers and are not reliant on proceeds from the loans each community finance organization makes. The loans to community finance organization borrowers are not amortizing. Community finance organization borrowers make payments 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.

Currently, our loans to CFOs have two layers of support. First, most of our loans are made to CFOs with loan products that are affiliated with, or participate in, federal and state programs, that offer guarantees and/or loan loss reserve support for repayment. Second, our loans are full recourse to the borrower.

We conduct three levels of diligence on every potential borrower, including the following:

- 1) **Peer Review** – We review data generated about CDFIs by AERIS<sup>®</sup>, the national rating agency for the CDFI industry, and available through OFN, the national membership association for CDFIs. AERIS prepares in-depth reports on CDFIs' financial performance which are relied upon by major banks and government entities. OFN maintains the deepest base of knowledge of CDFI trends, challenges and performance over the last three decades.
- 2) **CNote Review** – CNote conducts its own assessment of each potential borrower's historical financial performance and social impact. This process includes, among other things, a review of the potential borrower's financial and portfolio performance, audited financial statements, lending and operational policies, composition of the executive team and the board, and strategic plan, as well as interviews with the leadership team, board members and clients. If the potential borrower is not a CDFI, CNote will verify that the community finance organization (a) serves at least one community that commonly faces discrimination (such as low-to-moderate income, BIPOC, or disabled communities, or individuals with no or low credit scores), (b) offers responsive products to the target underserved community (such as microbusiness, credit builder, affordable housing, and/or energy-efficiency loans), and (c) can report impact data about their operational and lending activities to CNote.

- 3) **Third-Party Review** – CNote’s risk management approach incorporates third-party oversight through borrower references for each potential CFO borrower, including an assessment of the organization’s lending process and their responsiveness to geographic and product specific needs within the community. Additionally, CNote maintains an investment committee composed of CNote management as well as individuals with expertise in the community finance industry, and with no ties, financial or otherwise, either to us or to the potential borrower. This investment committee provides tertiary, third-party assessments of potential borrowers, including specific risks to be identified. Service on the investment committee is fully voluntary and is not compensated.

We will only enter into a lending relationship with a potential CFO borrower after satisfactory completion of our due diligence review. Prospective 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. As a part of the underwriting process, utilizing the proprietary risk matrix, CNote evaluates the set of indicators across chosen categories to develop a comprehensive risk assessment of the applicant. Depending on where a CFO falls within a category, it is assigned a risk rating score aligned to a set rubric, which is then weighted and blended with other category risk rating scores to form a composite risk rating score. The group of factors in the financial health and portfolio quality categories represent the largest weighted areas of this composite score. The factors range from qualitative like assessment of reporting and operational practices as well as quantitative like net assets, self-sufficiency, net charge off rate among others. CFOs with the score above average (average is determined based on the historical data analysis) are considered for investment. Our management team continuously monitors the operational and lending activities of our borrowers, including the health of their loan portfolios.

Our diligence process typically takes four to six weeks.

Currently, we offer CFO borrowers term loans of different maturity and varied amounts defined during the underwriting process.

Based on the results of our analysis, we are able to determine the terms of the loan to be made to a CFO borrower, including the principal amount, interest rate, and term. CNote’s assessment of the CFO’s creditworthiness, the size of the CFO, the number of banking products, general economic environment and competition for capital are principal factors, among others, that are considered in the determination of the amount, interest rate and term of the loan. Our loans are typically made in the form of a master promissory note, which allows the CFO to make multiple requests for advances. If a borrower makes a request for an additional loan amount, we will re-evaluate the 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, borrower may receive different financial terms on subsequent draw downs.

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

We service our loans in-house.

As of June 30, 2023, total loans outstanding to 36 CDFIs were comprised of 203 loans, with balances ranging from \$25,000 to \$5,000,000. The loans have maturity dates ranging from July, 2023 through November, 2029 and bear interest at 1.5% to 4.5% per annum.

#### **OUR DEPOSITORY BUSINESS**

With respect to cash deposits using CNote's technology platform, called Impact Cash<sup>®</sup>, the Company coordinates with a third-party custodial agent to assist clients with opening interest-bearing deposits at community finance depository institutions located in the United States. Generally, to be eligible for CNote's Impact Cash<sup>®</sup> network, depository institutions are (1) classified as well-capitalized pursuant to federal statutory net worth categories, by the Federal Deposit Insurance Corporation ("FDIC") with respect to banks, and by the National Credit Union Administration ("NCUA") with respect to credit unions, as applicable, and (2) certified as a CDFI, qualified as a Minority Deposit Institution ("MDI"), hold a Low-Income Designation ("LID"), or otherwise act as a proven mission-driven depository institution that has a history of positively serving and supporting underserved communities, including communities designated as low- and moderate-income minority communities via U.S. Census Tract data and third-party data analysis.

Impact Cash<sup>®</sup> deposits include certificates of deposits with terms of generally between six to 24 months and bearing interest at prevailing market interest rates, and money market accounts with variable rates of interest. Balances are insured by the FDIC or the NCUA, as applicable, in an amount up to \$250,000. Clients receive a quarterly report describing the positive social impact of their deposits at community finance depository institutions, including such information as how many loans the depository institutions have outstanding, the percentage of depository institution assets deployed as loans, the percentage of depository institution branches in low- to moderate-income, distressed, or majority-minority communities, and the number of jobs created or maintained by loans and/or projects financed by the depository institutions.

Under our business model for Impact Cash<sup>®</sup>, we generate revenue by charging our clients a service fee. The service fee we charge varies based on the total amount to be deposited by the client and the level of customization requested by the client with respect to impact areas and geographic themes for the placement of their deposits.

We also earn servicing fees for consulting work on behalf of foundations and other institutions, and for customization for institutional clients of CNote's technology originally built for its internal underwriting and monitoring of community finance organizations. The consulting work leverages CNote's knowledge, expertise and technology in identifying and underwriting community finance organizations as well as monitoring and reporting on their financial and impact performance.

## TECHNOLOGY & RELATIONSHIPS

CNote believes it is uniquely poised to grow in the community finance industry, given its industry expertise, relationships, technology and go to market strategy.

Although CDFIs have been in existence for nearly 30 years, CDFIs have largely operated as a business-to-business industry. There are over 1,300 CDFIs across the country of varying sizes, geographic make-ups and product lines. The CDFI Fund reports that CDFIs' assets total over \$222 billion.<sup>9</sup> Though their specific areas of focus vary, all CDFIs share a primary mission of providing fair and responsible capital to segments under-served by traditional financial institutions, such as women- or minority-owned businesses, as well as community facilities and affordable housing. Each year, CDFIs must be re-certified by the CDFI Fund, which helps ensure they continue serving the communities they intend and maintain strong financial performance.

While single CFOs have tried to reach individual investors, few have done so successfully. The majority of CFOs, many of whom are non-profits, do not have the marketing, legal, or technology budgets or expertise to effectively address individual investors and depositors.

CNote is excited to change this dynamic through technology and outreach. From inception through June 30, 2023, we offered approximately \$118 million in loans to CFOs, and our clients made approximately \$190 million in deposits with CFOs. By continuing to forge relationships with key CFOs, inclusive of the national industry of CDFIs, community banks, and credit unions, CNote is developing a scalable technology solution that will enable CFOs to access capital from individual and institutional investors and depositors. Furthermore, in addition to connecting CFOs with new sources of impact-aligned debt capital and deposits, CNote provides the industry as a whole with increased visibility. In turn, this will help CFOs to enhance their operational capacity as well as expand their recognition with partners and borrowers.

## REGULATION

The Company operates as a nonbank, commercial lender. Most states do not require us to obtain licenses for our commercial lending activities, as currently structured. We are currently legally authorized to lend in 46 states plus the District of Columbia as a non-bank commercial lender. As a lender we are generally subject to the lending laws of our home state of California and possibly the home state of the borrower. We maintain a dialogue with regulators in states in which we operate and strive to run our business within the bounds of the law and the principles of fairness and goodwill.

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<sup>9</sup> Opportunity Finance Network. "What Is a CDFI? - OFN." OFN, March 3, 2023. <https://www.ofn.org/what-is-a-cdfi/#:~:text=There%20are%20more%20than%201%2C300,than%20390%20are%20OFN%20members>.

**OFFICE SPACE AND EMPLOYEES**

We lease office space at a coworking facility in Oakland, CA on a month-to-month basis. If necessary, we believe we can find alternative office space without difficulty near our current location.

As of September 1, 2023, we had 20 full-time employees and also rely on outside consultants for various technical and business functions.

## SECURITIES BEING OFFERED

### DESCRIPTION OF SECURITIES

We are offering to the public up to \$50,000,000 of our Notes. The principal terms of the Notes are as follows:

- *Interest Rate:* Upon qualification of the Offering Notes will be sold bearing interest at 4% per year. Thereafter, Notes will be issued at annual interest rates between 1% and 7%. To change the interest rate within that range we will file a Supplement to our Offering Circular. If we wish to issue Notes with an interest rate outside that range we will file an Offering Statement Amendment.
- *Maturity:* All principal and accrued interest will be due on the date 30 months following the date of issuance.
- *Required Payments:* The Company is not obligated to make any payments of principal or interest until maturity.
- *Requests for Payment:* Each calendar quarter an Investor may, by giving 30 days' notice to the Company, elect to receive a payment no greater than 10% of the outstanding principal. However, the Company may limit such requests depending on available funds.
- *Permitted Prepayments:* The Company is permitted to pre-pay the Notes at any time. Payments will first be applied to accrued interest, then to outstanding principal.
- *Transferability:* The Notes may not be transferred without the Company's written consent.
- *Security:* The Notes are not secured and are not guaranteed by any third party. Instead, they represent general, unsecured obligations of the Company.
- *Manner of Payment:* Payments by the Company will be made by ACH transfer to an account designated by the Investor. If the Investor fails to designate an account, payments will be made by plain check mailed to the Investor's address on file.

### INVESTORS ARE CREDITORS, NOT STOCKHOLDERS

When you purchase a Note you become a creditor of the Company, not a stockholder. Among other things, you have no right to vote or participate in the management of the Company, nor any statutory right to review the Company's books and records.

**FORM AND CUSTODY**

Notes will be issued by a computer-generated program on our Platform and electronically signed by the Company in favor of the investor. The Notes will be stored by the Company and will remain in the Company's custody for ease of administration. Except during periodic system maintenance, investors may view their Notes through their online dashboard.

**OPPORTUNITY TO "ROLL OVER" INVESTMENT**

Upon the maturity of a Note, the Investor might be given the opportunity to purchase a new Note with all or a portion of the proceeds of the existing Note. Any such purchase would be on the same terms new investors are purchasing Notes at the time and would be subject to the availability of an exemption from registration, whether Regulation A or another exemption. In the event that Investor does not affirmatively elect to purchase a new Note, the principal and interest will be paid out to the Investor upon maturity of the Note.

**EVENTS OF DEFAULT**

The following will be events of default under the Notes:

- If the Company fails to make any payment when due and such failure continues for 90 days; or
- If the Company ceases operations, files a petition for bankruptcy or has an involuntary case filed against us, or makes a general assignment in favor of creditors.

**GOVERNING LAW**

The Notes will be governed and construed in accordance with the laws of the State of California.

**EXCLUSIVE FORUM PROVISION**

Each Note provides "[T]his Note shall be governed by the laws of the State of California, without regard to conflict of law provisions. In the event that the dispute resolution procedures in Section 8 are found not to apply to a given claim, any judicial proceeding will be brought in the state courts of San Francisco County, California. Both parties hereto consent to venue and personal jurisdiction there."

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

**BINDING ARBITRATION**

Each Investor will agree to resolve disputes, controversies and claims through binding arbitration rather than through the court system.

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

**WAIVER OF CLASS ACTIONS**

Each Investor will agree to waive all actions in the nature of "class actions" and pursue claims only on an individual basis.

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

## LIMIT ON AMOUNT A NON-ACCREDITED INVESTOR CAN INVEST

As long as you are at least 18 years old, you can invest in this Offering. But if you are not an “accredited” investor, the amount you can invest is limited by law.

Under 17 CFR §230.501, a regulation issued by the Securities and Exchange Commission, the term “accredited investor” means:

- A natural person who has individual net worth, or joint net worth with the person’s spouse, that exceeds \$1 million at the time of the purchase, excluding the value of the primary residence of such person;
- A natural person with income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year;
- A trust with assets in excess of \$5 million, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person;
- A business in which all the equity owners are accredited investors;
- An employee benefit plan, within the meaning of the Employee Retirement Income Security Act, if a bank, insurance company, or registered investment adviser makes the investment decisions, or if the plan has total assets in excess of \$5 million;
- A bank, insurance company, registered investment company, business development company, or small business investment company;
- A charitable organization, corporation, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets exceeding \$5 million; and
- A director, executive officer, or general partner of the company selling the securities, or any director, executive officer, or general partner of a general partner of that issuer.

If you fall within any of those categories, then you can invest as much as you want. If you don’t fall within any of those categories, then the most you can invest in this Offering is the greater of:

- 10% of your annual income; or
- 10% of your net worth.

These limits are imposed by law, not by us.

When you go to our Platform we will ask whether you are an accredited investor. If you aren’t, then we’ll ask for your annual income and net worth.



## **PLAN OF DISTRIBUTION**

### **SIZE OF OFFERING**

We are offering up to \$50,000,000 of our Notes in the Offering. We will begin deploying the proceeds of the Offering (that is, we will begin to use the proceeds to lend money to CFOs) as soon as we begin raising capital.

### **WHO IS SELLING SECURITIES**

Only the Company itself is selling securities in this Offering. No securities are being sold by or on behalf of any existing owner of the Company.

### **WHO CAN BUY SHARES**

Anyone 18 or older can buy Notes, regardless of income or net worth. If you are not an “accredited investor” the law limits how much you can invest. See “LIMIT ON AMOUNT A NON-ACCREDITED INVESTOR CAN INVEST.”

### **TERM OF OFFERING**

The Offering will begin as soon as our offering statement is “qualified” by the SEC. The Offering will end upon the earlier of (i) the date we have sold \$50,000,000 of Notes, (ii) a date determined by the Company in its sole discretion; or (iii) the date the Offering is required to terminate by law.

### **MINIMUM INITIAL INVESTMENT**

The minimum initial investment is \$1.00.

### **MANNER OF DISTRIBUTION**

The Notes will be offered only by the Company itself through the Platform.

### **HOW TO INVEST**

To buy a Note, go to the Platform, create an account, register, and then follow the instructions.

We will ask you to sign our Subscription Agreement, a copy of which is attached as Exhibit 1A-6A.

The information you submit, including your signed Subscription Agreement, is called your “subscription.” We will review your subscription and decide whether to accept it. We have the right to accept or reject subscriptions in our sole discretion, for any reason or for no reason.

Once we have accepted your subscription, we will notify you by email and the investment process will be complete. We may also notify you by email if we do not accept your subscription, although we might not explain why. We reserve the right to reject any subscription in whole or in part for any reason. If we reject your subscription, we will return all your money without interest or deduction.

Typically, the Company will consider making a loan to a CFO when it has received and accepted subscriptions for investors for at least \$500,000. For example, suppose the Company has just made loans depleting its lendable funds, the Company will continue accepting subscriptions from investors until it has received and accepted subscriptions for approximately \$500,000. The Company will notify the new investors when their funds are invested through the Platform. However, the Company may make loans to a CFO even if it has less than \$500,000 in accepted subscriptions available for lending.

As a result, there will typically be a delay of between 10 and 90 days between the time you sign your Subscription Agreement and the time we ask you for payment. However, neither the amount of your investment nor the terms of your Note (including the interest rate) will change.

Your Note will be issued in electronic form only. We will not issue you a piece of paper representing your Note.

#### **ADVERTISING THE OFFERING**

After the Offering has been “qualified” by the SEC, we intend to advertise the Offering using the Platform and through other means, including public advertisements and audio-visual materials, in each case only as we authorize. Although these materials will not contain information that conflicts with the information in this Offering Circular and will be prepared with a view to presenting a balanced discussion of risk and reward with respect to the Notes, our advertising materials will not give a complete understanding of this Offering, the Company, or the Notes and are not to be considered part of this Offering Circular. The Offering is made only by means of this Offering Circular and prospective Investors must read and rely on the information provided in this Offering Circular in connection with their decision to invest in Notes.

#### **SUPPLEMENTS AND AMENDMENTS TO OFFERING CIRCULAR**

From time to time, we will supplement or amend this Offering Circular during the term of the Offering to reflect changes or additions to the information presented, as required by SEC rules.

## USE OF PROCEEDS

We expect that the principal costs of the Offering will be legal and accounting costs, amounting to approximately \$75,000. We also expect to spend approximately \$50,000 marketing the Offering, *i.e.*, trying to sell the Notes. After subtracting those costs, we expect to use all the proceeds of the Offering to make loans to CFOs.

The proceeds of the Offering will not be used to compensate or otherwise make payments to officers or directors of the Company or any of its subsidiaries.

## OUR MANAGEMENT TEAM

<i>Name</i>	<i>Age</i>	<i>Position(s)</i>	<i>Term of Office</i>
Catherine Berman	48	President, Chief Executive Officer, Co-founder, Director	Started June 17, 2016 - Indefinite
Yuliya Tarasava	40	Chief Operating Officer, Co-founder, Treasurer, Secretary, Director	Started April 22, 2016 - Indefinite
Abhijeet Roy	48	Head of Engineering	Since August 8, 2022 - Indefinite
Aimeelene Gaspar	49	Chief Product Officer	Since January 18, 2022 - Indefinite
Candice Carr	49	Vice President Legal	Since May 22, 2023 - Indefinite

### *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 \$75 billion asset firm providing access to boutique investment strategies. Ms. Tarasava then went on to Summit Rock Advisors, a \$10 billion OCIO firm, 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.

*Abhijeet Roy*

Mr. Roy is a seasoned technology executive with over 22 years of experience in the finance and technology industries. Previously, Mr. Roy was the CTO of Coinberry, a crypto trading platform where he led the strategy and development of a safe, secure and convenient platform for trading cryptocurrencies. Prior to that, he worked as a technology executive at Mastercard, where he built new and innovative solutions to leverage data as a strategic asset. Before his work at Mastercard, Mr. Roy was at MicroStrategy where he led the development of a modern analytics and reporting platform with the mission to spread 'intelligence everywhere'. As the head of engineering for the company's industry-leading mobile platform, he grew the team and launched new products that pushed the boundaries of product capabilities based on customer needs. Mr. Roy holds an MBA with focus on Strategic Management and a Master's degree in Engineering.

*Aimeelene Gaspar*

Ms. Gaspar is a serial entrepreneur with deep domain expertise in financial services and technology. In addition, she offers her time and expertise to fellow founders through her work at Village Capital with their FinTech Forward program as an advisory board member. Her path from finance to technology culminated in becoming a product management executive with over 20 years of experience at large financial services companies, and startups such as Broadridge and Yodlee. Ms. Gaspar was listed as one of the NYC Fintech Women Inspiring Fintech Females of 2020 and is a current member of Professional Business Women of California. Ms. Gaspar graduated from the University of Illinois at Urbana-Champaign with a Bachelor of Science Degree in Finance and completed a Masters of Science Degree in Integrated Design, Business and Technology from the University of Southern California.

*Candice Carr*

Ms. Carr has over 20 years of diversified experience providing expert counsel as a trusted advisor on a broad range of business legal issues to principals, entrepreneurs, and executives, as well as early-stage and high-growth businesses. Ms. Carr's legal practice has focused primarily on corporate law and transactions, litigation management, intellectual property, mergers and acquisitions, and employment law. Ms. Carr received a J.D. from Golden Gate University School of Law, and a B.A. from San Francisco State University.

**SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN INVESTORS AS OF JUNE 30, 2023**

<b>Owner</b>	<b>Class</b>	<b>Beneficial Ownership</b>
Catherine Berman (1)	Common Stock	3,975,000 shares (2)
Yuliya Tarasava (1)	Common Stock	3,575,000 shares (3)
Executive Officers and Directors Together	Common Stock	7,550,000 shares
ManchesterStory Venture Fund, L.P. (5)	Common Stock	1,000,000 shares (6)
ManchesterStory Venture Fund, L.P. (5)	Preferred Stock	2,946,369 shares

<b>Owner</b>	<b>Class</b>	<b>Beneficial Ownership Acquirable (Shares)</b>	<b>Percent of Class (8)</b>
Catherine Berman (1)	Common Stock	4,043,750 (4)	46.0%
Yuliya Tarasava (1)	Common Stock	3,643,750 (4)	41.4%
Executive Officers and Directors Together	Common Stock	7,687,500	87.4%
ManchesterStory Venture Fund, L.P. (5)	Common Stock	1,000,000 (6)	11.4% (7)
ManchesterStory Venture Fund, L.P. (5)	Preferred Stock	2,946,369	15.4%

(1) The address of each executive officer and director is CNote Group, Inc., 2323 Broadway, Oakland, CA 94612.

(2) Includes 3,200,000 shares of common stock outstanding and 775,000 shares of common stock issuable as of June 30, 2023, pursuant to common stock options held. Does not reflect the unvested balance of a grant of an aggregate 1,650,000 shares of common stock, of which 16.7% (or 275,000 shares) were vested at June 30, 2023, and which will continue to vest in equal monthly installments of 1/48<sup>th</sup> of such grant thereafter.

- (3) Includes 2,800,000 shares of common stock outstanding and 775,000 shares of common stock issuable as of June 30, 2023, pursuant to common stock options held. Does not reflect the unvested balance of a grant of an aggregate 1,650,000 shares of common stock, of which 16.7% (or 275,000 shares) were vested at June 30, 2023, and which will continue to vest in equal monthly installments of 1/48<sup>th</sup> of such grant thereafter.
- (4) Reflects vesting of two monthly installments of 34,375 shares of common stock (or 68,750 shares total) through August 31, 2023.
- (5) The address for ManchesterStory Venture Fund, L.P. is 3001 Westown Parkway, Suite 102, West Des Moines, IA 50266.
- (6) Represents the number of shares issuable on exercise of the holder's warrants.
- (7) Percentage ownership based upon the number of outstanding shares that would result from exercise of the holder's warrants.
- (8) Calculated on basis of beneficial ownership acquirable as of June 30, 2023.

## COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The Company has two directors who also serve as executive officers. Their compensation for the 2022 fiscal year was as follows:

	<i>Cash Compensation</i>	<i>Other Compensation</i>	<i>Total</i>
Catherine Berman President, Chief Executive Officer, Co-Founder, Director	\$190,530	\$148,500	\$339,030
Yuliya Tarasava Chief Operating Officer, Co-Founder, Treasurer, Secretary, Director	\$190,530	\$148,500	\$339,030

Executive compensation is set annually, based on several factors including company and individual leadership, performance compensation of competitor peer group, and other factors.



## TRANSACTIONS WITH RELATED PARTIES

If the Company enters into transactions with related parties in the future, we will file a Supplement to the Offering Circular. Any compensation paid by the Company to a related party shall be (i) fair to the Company, and (ii) consistent with the transaction that would be paid to an unrelated party.

By “related party” we mean:

- Any Director, executive officer, or significant employee of the Company or the Manager;
- Any person who has been nominated as a Director;
- Any person who owns more than 10% of the voting power of the Company; and
- An immediate family member of any of the foregoing.

## MANAGEMENT DISCUSSION

*You should read the following discussion together with our consolidated financial statements and the related notes and other financial information elsewhere in this Offering Circular. Some of the information contained in this discussion and analysis, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should also review “Risks of Investing” for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.*

### OVERVIEW

The Company operates an online impact investment platform that (1) using the capital raised from individual and institutional investors, offers loans to CFOs that in turn lend to under-resourced communities, and (2) assists its clients with opening interest-bearing deposits, called Impact Cash<sup>®</sup>, at CFOs institutions. As of June 30, 2023, the Company had approximately \$72,556,000 outstanding in loans and interest with CFOs, and has assisted clients in making approximately \$190,000,000 in deposits at CFOs.

The Company generates revenue on loans by retaining the difference between the interest earned on deployed funds versus the interest paid to its investors, and on its deposit services by charging service fees for client funds deposited into CFOs.

The Company has experienced steady growth in its loan portfolio and resulting interest revenues. During the fiscal year ended December 31, 2021, the Company’s aggregate number of loans outstanding more than doubled from 31 loans to 64 loans, and its CFO loan portfolio balance increased 81% over the prior year-end, while interest revenues on CFO loans outstanding increased by 62% year-over-year. During the twelve months ended December 31, 2022, we made 16 additional loans, the loan portfolio balance increased 26%, and interest revenues increased by 26% year-over-year.

### OPERATING RESULTS

#### *Revenues*

During the six months ended June 30, 2023, the Company generated approximately \$1,622,000 in revenue compared to \$1,357,000 reported in the comparable period in the prior year, due to increases in interest income on loans and deposits and increased fee income, partially offset by decreases in grant-related revenues.

#### *Operating Expenses*

During the six months ended June 30, 2023, the Company had operating expenses of approximately \$2,979,000 compared to approximately \$1,817,000 in the comparable period in the prior year. The largest line items of operating expenses were payroll and payroll taxes as well as legal and other professional services supporting continued business development and expansion.

## LIQUIDITY AND CAPITAL RESOURCES

### *Sources of Liquidity*

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

### *Equity and Convertible Debt Financing*

On August 25, 2020, the Company entered into a Series Seed Preferred Stock financing whereby the Company authorized 11,009,805 shares of Preferred Stock and designated and issued 10,851,841 shares of Series Seed Preferred Stock in exchange for conversion of the entirety of the Company's SAFEs in the amount of \$1,619,500, conversion of the entirety of the outstanding amount of the Company's convertible notes in the principal amount of \$1,725,660 plus accrued interest, and cash consideration of approximately \$3,400,000.

On August 31, 2022, the Company entered into a Series A Preferred Stock financing whereby the Company authorized an additional 8,129,644 shares of Preferred Stock, bringing the total authorized shares of Preferred Stock to 19,139,449, and designated and issued 8,287,608 shares of Series A Preferred Stock in exchange for cash consideration of \$7,250,000. As of December 31, 2022, the Company has sold and issued an aggregate total of 19,139,449 shares of 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.

### *Operating and Capital Expenditure Requirements*

The Company expects these existing funds, together with its 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 shares of Common Stock and Preferred Stock. 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.

## TRENDS AND KEY FACTORS AFFECTING OUR PERFORMANCE

### *Investment in Long-Term Growth*

The core elements of the Company's growth strategy include acquiring new clients, broadening distribution capabilities through strategic partnerships, extending customer lifetime value, and enhancing data, analytical, and customization capabilities. The Company plans to continue to invest significant resources to accomplish these goals, and the Company anticipates that its operating expenses, particularly sales and marketing and technology expenses, will continue to increase for the foreseeable future. These investments are intended to contribute to long-term growth, but they may affect near-term profitability.

### *Originations*

The Company's future growth will continue to depend, in part, on attracting additional investors and deposit account clients while entering into lending and depository relationships with more CFOs. The Company plans to increase its sales and marketing spending to seek to attract these investors and clients. We expect to rely on strategic distribution partners, affinity networks, and conference and public relations strategies for investor and client growth.

The Company expects our CFO borrowers' need for private debt capital to increase in the future. The extent to which the Company can satisfy that increased demand for debt financing will be an important factor in its continued revenue growth. Building relationships with the membership industry network and CFO coalitions has proven to be a stable source of referrals to CFO borrowers, and we expect this trend to continue.

### *Data and Technology Application*

The Company is exploring other applications of its servicing technology, underwriting model, and aggregate data on the community finance sector outside of internal use. The Company believes the wider use of technology in the impact investing and CDFI sector can result in a more efficient and timely capital deployment and in a more targeted impact created in underserved communities around the country.

### *Risk of Credit Losses*

The Company recognizes the risk of loan losses by establishing a reserve of one percent (1%) for potential losses to all new loans extended to CFOs. The Company places all loans 90 days past due as to principal or interest on nonaccrual status. Since inception, the Company has not experienced any loan losses or past due balances, no loans have been placed on nonaccrual status, and no loans have been modified.



*CNote Group, Inc.*  
*Consolidated Financial Statements as of and for the Six-Month Periods Ended June 30, 2023 and June 30, 2022*  
*and as of and for the Year Ended December 31, 2022*

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**CNote Group, Inc.**  
**Consolidated Balance Sheets**  
**As of June 30, 2023 and December 31, 2022**  
**(Unaudited)**

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 3,315,533	\$ 4,803,648
Restricted cash (Note 2)	409,394	470,438
Interest-bearing deposits in banks	18,644,894	27,093,489
Accrued interest receivable	1,571,258	1,640,886
Loans held for investment		
Loans held for investment at amortized cost	7,997,215	10,817,509
Loans held for investment at fair value	62,366,080	62,407,668
Allowance for loan losses	(79,486)	(108,175)
Net loans held for investment	<u>70,283,809</u>	<u>73,117,002</u>
Other assets	296,788	127,388
Total assets	<u>\$ 94,521,676</u>	<u>\$ 107,252,851</u>
<b>Liabilities and Stockholders' Equity</b>		
Notes payable held at amortized cost	\$ 25,255,884	\$ 36,213,386
Notes payable held at fair value	62,366,080	62,407,668
Accrued interest payable	1,653,656	1,273,213
Deferred revenue	166,667	416,667
Other liabilities	246,353	166,129
Total liabilities	<u>89,688,640</u>	<u>100,477,063</u>
Commitments and contingencies (Note 5)	-	-
<b>Stockholders' Equity:</b>		
Series seed preferred stock; par value of \$0.00001 per share; 19,139,449 shares authorized, issued, and outstanding as of June 30, 2023 and December 31, 2022 (liquidation preference value of \$6,815,740)	191	191
Common stock; par value of \$0.00001 per share; 38,000,000 shares authorized; 6,802,864 shares issued and outstanding as of June 30, 2023 and December 31, 2022	68	68
Additional paid in capital	14,957,841	14,903,624
Accumulated deficit	(10,125,064)	(8,128,095)
Total stockholders' equity	<u>4,833,036</u>	<u>6,775,788</u>
Total liabilities and stockholders' equity	<u>\$ 94,521,676</u>	<u>\$ 107,252,851</u>
<b>Reconciliation of cash, cash equivalents, and restricted cash within the Consolidated Balance Sheet and total cash shown in the Statement of Cash Flows:</b>		
Cash and cash equivalents	\$ 3,315,533	\$ 4,803,648
Restricted cash	409,394	470,438
Total cash, cash equivalents, and restricted cash shown in the Statement of Cash Flows	<u>\$ 3,724,927</u>	<u>\$ 5,274,086</u>

See accompanying notes to the consolidated financial statements.

**CNote Group, Inc.**  
**Consolidated Statements of Operations**  
**For the Six-Month Periods Ended June 30, 2023 and June 30, 2022**  
**(Unaudited)**

	<u>2023</u>	<u>2022</u>
<b>Operating Revenues</b>		
Interest income on loans	\$ 962,810	\$ 898,445
Other interest income	212,535	52,708
Total interest income	<u>1,175,345</u>	<u>951,153</u>
Interest expense	<u>667,452</u>	<u>677,042</u>
Net interest income	507,893	274,111
Provision for loan losses	<u>(28,689)</u>	<u>(117,772)</u>
Net interest income after provision for loan losses	536,582	391,883
<b>Other Income</b>		
Service fees	196,622	322,350
Grants received	<u>250,000</u>	<u>83,333</u>
Total other income	446,622	405,683
Net revenue	<u>983,204</u>	<u>797,566</u>
<b>Operating Expenses</b>		
Salaries and employee benefits	1,582,697	1,023,477
Professional services	815,355	477,992
General and administrative	334,629	195,391
Sales and marketing	<u>245,892</u>	<u>119,907</u>
Total operating expenses	2,978,573	1,816,767
Net operating loss	(1,995,369)	(1,019,201)
Net loss before taxes	(1,995,369)	(1,019,201)
Provision for income taxes	<u>1,600</u>	<u>1,676</u>
Net loss	<u>\$ (1,996,969)</u>	<u>\$ (1,020,877)</u>
Weighted average common shares outstanding - basic and diluted	<u>6,802,864</u>	<u>6,770,442</u>
Basic and diluted net loss per share	<u>\$ (0.29)</u>	<u>\$ (0.15)</u>

See accompanying notes to the consolidated financial statements.



**CNote Group, Inc.**  
**Consolidated Statements of Stockholders' Equity**  
**For the Six-Month Period Ended June 30, 2023 and for the Year Ended December 31, 2022**  
**(Unaudited)**

	Series Seed Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount			
December 31, 2021 (audited)	10,851,841	\$ 109	6,770,442	\$ 68	\$ 7,762,787	\$ (5,684,210)	\$ 2,078,754
Issuance of series A preferred stock for cash, net of offering costs	8,287,608	82	-	-	7,105,853	-	7,105,935
Exercise of options to purchase common stock	-	-	32,422	-	4,052	-	4,052
Stock-based compensation	-	-	-	-	30,932	-	30,932
Net loss	-	-	-	-	-	(2,443,885)	(2,443,885)
December 31, 2022 (audited)	19,139,449	191	6,802,864	68	14,903,624	(8,128,095)	6,775,788
Stock-based compensation	-	-	-	-	54,217	-	54,217
Net loss	-	-	-	-	-	(1,996,969)	(1,996,969)
June 30, 2023 (unaudited)	19,139,449	\$ 191	6,802,864	\$ 68	\$ 14,957,841	\$ (10,125,064)	\$ 4,833,036

See accompanying notes to the consolidated financial statements.

**CNote Group, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Six-Month Periods Ended June 30, 2023 and June 30, 2022**  
**(Unaudited)**

	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,996,969)	\$ (1,020,877)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	54,217	7,131
Provision (reduction) for loan losses	(28,689)	(117,772)
Changes in operating assets and liabilities:	-	
Accrued interest receivable	74,928	(230,590)
Other assets	(174,702)	(47,960)
Other liabilities	80,227	(136,708)
Deferred revenues	(250,000)	360,315
Accrued interest payable	380,443	457,151
Net cash used in operating activities	(1,860,545)	(729,310)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net repayment of (lendings under) loans receivable	2,861,882	(11,038,801)
Net liquidation of interest-bearing accounts	8,448,595	9,883,908
Net cash provided by (used in) investing activities	11,310,477	(1,154,893)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net borrowings on (repayment of) notes payable	(10,999,091)	273,718
Net cash provided by (used in) financing activities	(10,999,091)	273,718
Decrease in cash, cash equivalents, and restricted cash	(1,549,159)	(1,610,485)
Cash, cash equivalents, and restricted cash, beginning balance	5,274,086	3,719,438
Cash, cash equivalents, and restricted cash, ending balance	\$ 3,724,927	\$ 2,108,953
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 794,902	\$ 219,891
Cash paid for income taxes	\$ 1,600	\$ 1,676
<b>Reconciliation of cash, cash equivalents, and restricted cash to the consolidated balance sheets:</b>		
Cash and cash equivalents	\$ 3,315,533	\$ 4,803,648
Restricted cash	409,394	470,438
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	\$ 3,724,927	\$ 5,274,086

See accompanying notes to the consolidated financial statements.

**CNOTE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE 1 – NATURE OF OPERATIONS**

CNote Group, Inc. was incorporated on April 22, 2016 (“Inception”) in the State of Delaware. The Company’s headquarters are located in Oakland, California. The consolidated financial statements of CNote Group, Inc. (which may be referred to as “CNote”, the “Company,” “we,” “us,” or “our”) are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

CNote Group, Inc. is a women-led business on a mission to close the wealth gap through financial innovation. Using the power of technology and a community-first framework, CNote enables individuals and institutions to efficiently invest locally at scale in fixed income and deposit solutions that advance economic equality, financial inclusion, racial justice, gender equity, and climate change initiatives. With the aim of closing the wealth gap, CNote’s fixed income and depository solutions provide a diversified and scalable way to support job creation, small business growth, affordable housing development, and lasting economic growth in underserved communities across the United States, through relationships with community finance organizations (“CFOs”), primarily Community Development Financial Institutions certified by the U.S. Department of the Treasury’s CDFI Fund (“CDFIs”). CFOs, including CDFIs, raise capital from a variety of sources, including but not limited to financial institutions, government agencies, religious institutions, foundations, and individuals, but rely primarily on institutional investors such as banks and foundations. The Company believes there is an opportunity for individual investors to support these vital community lenders.

Our business has two principal components:

- Lending Business: We lend money directly to CFOs, using the capital we raise from investors. The Company makes a profit on the difference between the interest it charges to CFO borrowers and the interest it pays to investors.
- Depository Business: We provide proprietary data about CFOs to clients, which rely on our data to open interest-bearing accounts at CFOs. The Company earns fees for providing this service.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Unaudited Interim Financial Information*

The accompanying consolidated balance sheet as of June 30, 2023 and the consolidated statements of operations, stockholders' equity and cash flows for the six months ended June 30, 2023 and 2022 are unaudited. The unaudited consolidated interim financial statements have been prepared on the same basis as the audited consolidated annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for the fair statement of the Company's financial position as of June 30, 2023 and the results of its operations and its cash flows for the six months ended June 30, 2023 and 2022. The financial data and other information disclosed in these notes related to the six months ended June 30, 2023 and 2022 are also unaudited. The results for the six months ended June 30, 2023 are not necessarily indicative of results to be expected for the year ending December 31, 2023, any other interim periods, or any future year or period.

### *Use of Estimates*

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amount of revenues and expenses during the reporting period. Actual results could materially differ from these estimates.

Significant estimates include but are not limited to the valuation of loan loss reserves, and the valuation allowance related to deferred tax assets. It is reasonably possible that changes in estimates will occur in the near term.

### *Cash and Cash Equivalents and Restricted Cash*

The Company maintains its cash with major financial institutions located in the United States of America which it believes to be creditworthy. Balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, the Company may maintain balances in excess of the federally insured limits.

Cash equivalents include highly liquid debt instruments purchased with an original maturity of three months or less.

At June 30, 2023, the Company held \$409,394 in cash received as grant funds, to be used for activities in support of the grant's stated goals. This cash is reported on the balance sheet as restricted.

### *Interest-bearing Deposits in Banks*

In connection with its cash management products, the Company facilitates the creation of interest-bearing deposit accounts for the benefit of its clients in community finance depository institutions located in the United States of America. Deposits include certificates of deposits with terms of 6 to 24 months at fixed rates of interest and money market accounts with variable rates of interest. Balances are insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration up to \$250,000. At times, the Company may maintain balances in excess of the insured limits. In the normal course of business, the Company expects to hold such instruments to maturity.

### *Fair Value of Financial Instruments*

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants as of the measurement date. Applicable accounting guidance provides an established hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors that market participants would use in valuing the asset or liability. There are three levels of inputs that may be used to measure fair value:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Fair-value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of June 30, 2023 and December 31, 2022. The respective carrying value of all financial instruments approximated their fair values. These financial instruments include loans receivable and notes payable and interest receivable and payable.

Effective July 1, 2020, the Company adopted fair value presentation for payment-dependent notes issued under Regulation D. These notes are available only to accredited and institutional investors and under the terms of the notes are dependent upon repayment of a portion of the Company's loans to CFOs. The amount and term to maturity of loans funded by these notes match the underlying note. If the loan is repaid in accordance with its terms, the note will be repaid in full according to its terms. If the loan does not fully perform, investors in payment-dependent notes will receive payment of the pro-rata portion of any payments received on the loan. Accordingly, the Company has presented payment-dependent notes issued after the date of the fair-value election at their fair value as represented by the note amount less the amount of loan loss reserve recorded against the related loan receivable from CFOs. See Note 4.

The following tables present the fair value hierarchy for assets and liabilities measured at fair value at June 30, 2023 and December 31, 2022:

<b>June 30, 2023 (unaudited)</b>	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>	<b>Balance at Fair Value</b>
<b>Assets:</b>				
Loans held for investment	\$ -	\$ -	\$ 62,366,080	\$ 62,366,080
Total assets	\$ -	\$ -	\$ 62,366,080	\$ 62,366,080
<b>Liabilities:</b>				
Notes payable	\$ -	\$ -	\$ 62,366,080	\$ 62,366,080
Total liabilities	\$ -	\$ -	\$ 62,366,080	\$ 62,366,080

  

<b>December 31, 2022 (audited)</b>	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>	<b>Balance at Fair Value</b>
<b>Assets:</b>				
Loans held for investment	\$ -	\$ -	\$ 62,407,668	\$ 62,407,668
Total assets	\$ -	\$ -	\$ 62,407,668	\$ 62,407,668
<b>Liabilities:</b>				
Notes payable	\$ -	\$ -	\$ 62,407,668	\$ 62,407,668
Total liabilities	\$ -	\$ -	\$ 62,407,668	\$ 62,407,668

The following tables present additional information about Level 3 assets and liabilities measured at fair value at June 30, 2023 and December 31, 2022:

	<b>Outstanding Principal Balance</b>	<b>Valuation Adjustments</b>	<b>Fair Value</b>
<b>Balance at December 31, 2021 (audited)</b>	39,187,134	(783,743)	38,403,391
Change in loan loss reserve estimate (see below)	-	391,872	391,872
Loan originations	26,284,277	(262,845)	26,021,432
Principal payments and retirements	(2,433,361)	24,334	(2,409,027)
<b>Balance at December 31, 2022 (audited)</b>	63,038,050	(630,382)	62,407,668
Loan originations	7,701,724	(77,105)	7,624,619
Principal payments and retirements	(7,743,733)	77,526	(7,666,207)
<b>Balance at June 30, 2023 (unaudited)</b>	\$ 62,996,041	\$ (629,961)	\$ 62,366,080

  

	<b>Outstanding Principal Balance</b>	<b>Valuation Adjustments</b>	<b>Fair Value</b>
<b>Balance at December 31, 2021 (audited)</b>	39,187,134	(783,743)	38,403,391
Change in loan loss reserve estimate (see below)	-	391,872	391,872
Notes payable issued	26,284,277	(262,845)	26,021,432
Principal payments and retirements	(2,433,361)	24,334	(2,409,027)
<b>Balance at December 31, 2022 (audited)</b>	63,038,050	(630,382)	62,407,668
Notes payable issued	7,701,724	(77,105)	7,624,619
Principal payments and retirements	(7,743,733)	77,526	(7,666,207)
<b>Balance at June 30, 2023 (unaudited)</b>	\$ 62,996,041	\$ (629,961)	\$ 62,366,080

#### *Loans Receivable and Related Notes Payable*

Management expects that the terms of the Company's loans held for investment and the notes payable used to fund the loans held for investment typically will be 30 months or 60 months based on the current operating structure. In the normal course of business, the Company expects to hold such instruments to maturity. However, provisions within the terms of such instruments having 30-month terms allow for liquidity on demand of 10% per quarter. Accordingly, should the need arise, 40% of such loans held for investment and related notes payable can be due on demand within one year.

#### *Internal Use Software*

The Company has incurred software development costs to develop software programs to be used solely to meet its internal needs and cloud-based applications used to deliver services. In accordance with ASC 350-40, Internal-Use Software, the Company has capitalized development costs related to these software applications. The Company begins amortization of these costs once the preliminary project stage is complete and it is probable that the project will be completed, the software will be used to perform the function intended, and the value will be recoverable. Reengineering costs, minor modifications and enhancements that do not significantly improve the overall functionality of the software are expensed as incurred. The Company amortized the initial release of the software based on the in-service date over 36 months on a straight-line basis. No software development costs for not yet released programs and applications met the criteria for capitalization in the periods ended June 30, 2023 and December 31, 2022. Amortization of capitalized software development costs recorded to expense was \$0 for the six months ended June 30, 2023 and 2022. Accumulated amortization as of June 30, 2023 and December 31, 2022 was \$231,366.

#### *Stock Options and Warrants*

The Company has issued stock options and warrants to employees and to key advisors as compensation for services performed. The Company has accounted for these awards under ASC section 718 and Accounting Standards Update (“ASU”) 2018-07. The options and warrants and the services received were recorded at the fair value of the options and warrants at their grant dates, using an established options pricing model. See Note 7.

#### *Revenue Recognition and Cost of Revenues*

CNote deploys capital from individuals and institutions to CFOs. The Company earns interest on its loan deployments, which are a significant source of its revenues. All such deployments are governed by signed contracts between the Company on the one hand and CFOs on the other hand. Interest income is recorded based on the terms of the master promissory agreement with each CFOs or the terms of Money Market or Certificate of Deposit agreements with depository institutions. The interest is accrued monthly. If ninety (90) days pass without the interest being paid in accordance with normal disbursement practices per the agreement, then the Company will cease recording revenue until such time that the interest is collected.

CNote aggregates money from individuals and institutions through its online platform. The Company must pay interest on the capital to its clients. All such loans are governed by signed contracts between the Company and investors. The interest, which accrues according to the agreements’ governing terms of the loans from clients, constitutes the major portion of the Company’s direct cost of interest income. Other direct costs of interest income include the provision for loan loss reserve.

CNote also generates fees from consulting work performed on behalf of foundations and other institutions who as a part of their investment and programmatic mandates are interested in supporting BIPOC communities and promoting social justice. This consulting work leverages CNote’s knowledge, expertise and technology in identifying and underwriting CFOs as well as monitoring and reporting on their financial and impact performance. For corporate or institutional clients that invest in CFOs directly, CNote’s internal CFO underwriting and monitoring technology can be customized to fit their needs. Revenue for these activities is recognized over the period in which the work is performed and is deferred until recognizable.

CNote earns servicing fees on clients’ cash deposited into CFOs via CNote’s proprietary technology. These fees are accrued in accordance with signed agreements between the Company and its clients, and in accordance with those agreements are deducted from earnings disbursed to clients, or paid by clients via invoice.

From time to time, CNote receives grants from foundations and other institutions. The Company records grants received as revenue when all donor-imposed conditions on the grant have been satisfied and defers revenue which has not yet met the conditions for recognition. For grants that specify a service period or service requirements, including research studies or similar activities, revenues are recognized over the term of the arrangement as the underlying services are performed.

#### *Loan Loss Reserve*

The Company establishes a reserve for potential losses to loans extended to CFOs, other than those funded by payment-dependent notes and measured at fair value. The amount of the loan loss reserve is determined based on industry norms and trends, as well as the Company’s historical experience. Since commencing operations, the Company has not experienced any delinquencies or charge-offs of loans to CFOs. From inception through June 30, 2022, the Company established the reserve at two percent of principal. Based upon changes in overall industry rates for similar loans, and on the Company’s historical experience, the reserve rate was revised to one percent effective July 1, 2022.

Other than adjustments for changes in estimates, reversals to the loan loss reserve will happen only when the loans mature. If no loss has occurred on a particular loan, the loss reserve will be reversed and recognized as a reduction of the loan loss reserve at maturity of the loan. On the other hand, if any loan becomes completely unrecoverable, the entire amount of the loan will be charged off against the loan loss reserve, when and if facts and circumstances indicate that such a write off is necessary.

The Company uses fair value presentation for payment-dependent notes issued under Regulation D. The Company has presented payment-dependent notes at their fair value as represented by the note amount less the amount of loan loss reserve recorded against the related loan receivable from CFOs. The amount recognized in expense by the Company as provision for loan losses is reduced by the portion of the loan loss reserve recorded against such notes. See Note 4.

#### *Nonaccrual Loans*

Loans that are 90 days past due as to principal or interest are placed on nonaccrual status, and accrued interest receivable on the loan is reversed. Loans are restored to accrual status when all principal and interest is current and full repayment of the remaining contractual principal and interest is expected.

#### *Research and Development*

The Company incurs research and development costs during the process of researching and developing new technologies and future online offerings. Such costs are expensed as incurred.

#### *Income Taxes*

The Company applies ASC section 740. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial statement reported amounts at each period end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax expense for the period, if any, and the change during the period in deferred tax assets and liabilities. At June 30, 2023 and December 31, 2022, the Company has established a full reserve against all deferred tax assets.

ASC 740 also provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. A tax benefit from an uncertain position is recognized only if it is “more likely than not” that the position is sustainable upon examination by the relevant taxing authority based on its technical merit.

#### *Loss per Common and Common Equivalent Share*

The computation of basic earnings per common share is computed using the weighted average number of common shares outstanding during the year. The computation of diluted earnings per common share excludes Common Stock equivalents for the six months ended June 30, 2023 and 2022 as they are anti-dilutive. The Common Stock equivalents excluded from diluted loss per share total 26,409,409 and 14,124,699 share equivalents for the six months ended June 30, 2023 and 2022, respectively.

#### *Concentration of Credit Risk*

During the early stages of the Company’s development, it is to be expected that the Company will extend loans to a relatively low number of CFOs. For example, as of June 30, 2023, CNote has loans outstanding to 36 CFOs. When the Company extends loans to a low number of borrowers, this results in a concentration of credit risk, wherein each CFO borrower represents a relatively high risk, as compared with the relatively low risk that each individual borrower would constitute if the Company had loans outstanding with many CFO borrowers.

#### *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of CNote Group, Inc. and its wholly-owned subsidiary, CNote Lending, LLC. All intercompany accounts and transactions have been eliminated in consolidation.

### **NOTE 3 – LOANS RECEIVABLE AND INTEREST RECEIVABLE**

Loans receivable represent the principal amounts of outstanding loans the Company has made to CFOs, less loan loss reserves as described below. Interest receivable represents the outstanding interest due from CFO borrowers.

As of June 30, 2023, the Company has outstanding loans and interest receivable from 36 CFO borrowers in the gross carrying amount of approximately \$72,556,000. Under terms of the respective master promissory notes, the loans earn interest at rates ranging from 1.5% to 4.5% per annum. The loans typically mature in 30 to 60 months and may be prepaid by the borrower at any time without penalty. For loans with 30 month terms, the Company has the option to request repayment of 10% of the original loan amount on a quarterly basis. These requests are based on the requests of investor note holders as disclosed in Note 4.

During the six months ended June 30, 2023 and 2022, respectively, the Company was repaid approximately \$9,972,000 and \$6,604,000 on the principal of loans receivable which were used to repay notes payable.

The Company has recorded a provision for loan losses, as described in Note 2. The loan loss reserve totaled \$79,486 and \$108,175 as of June 30, 2023 and December 31, 2022, respectively. As of June 30, 2023 and December 31, 2022, all loans were contractually current and no loans had been placed on nonaccrual status. No loans were modified during the six months ended June 30, 2023 and the year ended December 31, 2022.

The table below summarizes the changes in the allowance for credit losses for the six months ended June 30, 2023 and the year ended December 31, 2022:

Allowance for loan losses, December 31, 2021 (audited)	\$ 385,678
Loans charged off	-
Recoveries of previously charged off loans	-
Net charge-offs	-
Provision for (recapture of) loan losses	(277,503)
Allowance for loan losses, December 31, 2022 (audited)	\$ 108,175
Loans charged off	-
Recoveries of previously charged off loans	-
Net charge-offs	-
Provision for (recapture of) loan losses	(28,689)
Allowance for loan losses, June 30, 2023 (unaudited)	\$ 79,486

#### NOTE 4 – NOTES PAYABLE, INTEREST PAYABLE AND LONG-TERM LIABILITIES

##### *Notes Payable*

Notes payable represent the principal amounts of outstanding borrowings from individual, corporate, and institutional clients. Interest payable represents the outstanding interest the Company owes to the note holders. Notes payable from clients are not a source of financing for the Company's operations; rather, they are used to fund CFO loans receivable (Note 3) and certain short-term investments in CFOs under the Company's cash management services.

As of June 30, 2023, notes payable totaled approximately \$88,252,000. Notes issued to investors with respect to the Company's CFO loans typically mature in 30 to 60 months and earn interest at the rate of 0.5% to 4.0% per annum. Additionally, the interest rate may be adjusted to the extent rates earned from loans to CFOs vary in the future. Notes with original 30-month maturities issued under Regulation D may be rolled over for additional 30-month terms at the option of the holder. Certain notes provide the holder an option to call 10% of the original note balance each quarter. Notes issued to investors in the Company's depository products earn interest at variable rates and generally have a term of 90 days.

The Company has adopted fair value presentation for payment-dependent notes payable issued under Regulation D effective July 1, 2020. These notes are available only to accredited and institutional investors and under the terms of the notes are dependent upon repayment of a portion of the Company's loans to CFOs. The amount and term to maturity of loans funded by these notes match the underlying note. If the loan is repaid in accordance with its terms, the note will be repaid in full according to its terms. If the loan does not fully perform, investors in payment-dependent notes will receive payment of the pro-rata portion of any payments received on the loan. Accordingly, the Company has presented payment-dependent notes issued after the date of the fair-value election at their fair value as represented by the note amount less the amount of loan loss reserve recorded against the related loan receivable from CFO. As of June 30, 2023, the Company has recorded a valuation adjustment for notes subject to this presentation in the amount of \$629,961.

As of December 31, 2022, notes payable totaled approximately \$99,251,000.

#### NOTE 5 – COMMITMENTS AND CONTINGENCIES

##### *Litigation*

The Company is not currently involved with and does not know of any pending or threatening litigation against the Company or any of its officers.

#### NOTE 6 – INCOME TAXES

On March 27, 2020, the United States enacted the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The CARES Act includes provisions relating to refundable payroll tax credits, deferment of the employer portion of certain payroll taxes, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. The CARES Act also established a Paycheck Protection Program whereby certain small businesses are eligible for a loan to fund payroll expenses, rent, and related costs.

The Company considered the provisions under the CARES Act and elected not to take advantage of the provisions of CARES Act as the effect of such provisions was not expected to have a material impact on the Company's results of operations, cash flows and financial statements.



The following table presents the current and deferred tax provision for federal and state income taxes for the six months ended June 30, 2023:

Current tax provision	
Federal	\$ -
State	1,600
<b>Total</b>	<b>\$ 1,600</b>
Deferred tax provision (benefit)	
Federal	\$ (414,000)
State	(173,000)
Valuation allowance	587,000
<b>Total</b>	<b>\$ -</b>
<b>Total provision for income taxes</b>	<b>\$ 1,600</b>

The components of the Company's deferred tax assets (liabilities) for federal and state income taxes consisted of the following as of June 30, 2023:

Deferred tax asset attributable to:	
Net operating loss carryover	\$ 2,589,000
Temporary differences	121,000
Valuation allowance	(2,710,000)
<b>Net deferred tax asset</b>	<b>\$ -</b>

Based on federal tax returns filed, or to be filed, through June 30, 2023, the Company has available approximately \$8,677,000 in U.S. tax net operating loss carryforwards, pursuant to the Tax Reform Act of 1986. Net operating loss carryforwards of approximately \$485,000 start to expire in 2036 or 20 years for federal income tax reporting purposes. Under the CARES Act, net operating loss carryforwards of approximately \$8,192,000 arising from tax years beginning after 2017 can be carried forward indefinitely. For California state tax reporting purposes, net operating loss carryforwards cannot be used in tax years beginning on or after January 1, 2020, and before January 1, 2023, in accordance with California Assembly Bill 85. The Company's net operating loss carryforwards will begin to expire in 2039 for state tax reporting purposes.

The Company is subject to tax in the United States ("U.S.") and files tax returns in the U.S. Federal jurisdiction and California state jurisdiction. The Company is subject to U.S. Federal, state and local income tax examinations by tax authorities starting in 2016. The Company currently is not under examination by any tax authority.

#### **NOTE 7 – STOCKHOLDERS' EQUITY**

##### *Preferred Stock*

As of June 30, 2023, the Company is authorized to issue 19,139,449 shares of Preferred Stock, each having a par value of \$0.00001. The Preferred Stock is convertible to Common Stock at the option of the holder, ranks pari passu with Common Stock with respect to dividends (other than dividends on shares of Common Stock payable in Common Stock) and payments in the event of any voluntary or involuntary dissolution or winding up of the Company. In the event of a Deemed Liquidity Event, as defined in the Company's Certificate of Incorporation, holders of Preferred Stock shall be entitled to receive preferential payment, before any distribution or payment is made to holders of Common Stock, of an amount defined as the Series Seed Liquidation Amount in the Company's Certificate of Incorporation. Each holder of Preferred Stock has voting rights equal to the number of shares of Common Stock into which the holder's Preferred Stock is convertible as of the record date for determining voting eligibility.

As of June 30, 2023 and December 31, 2022, 19,139,449 shares of Preferred Stock were issued and outstanding.

##### *Common Stock*

As of June 30, 2023, the Company is authorized to issue 38,000,000 shares of Common Stock, each having a par value of \$0.00001. As of June 30, 2023, 6,802,864 shares of Common Stock are issued and outstanding, 6,000,000 of which are held by the Company's two co-founders who remain active in the daily operations of the Company.

### *Stock Options*

In 2018, the Company's Board of Directors adopted the CNote Group, Inc. 2018 Equity Incentive Plan (the "2018 Equity Incentive Plan"). The 2018 Equity Incentive Plan was amended in 2020 and 2022 to increase the number of shares of Common Stock authorized thereunder. The 2018 Equity Incentive Plan, as amended, provides for the grant of equity awards to employees, and consultants, including stock options, stock appreciation rights and other stock or cash-based awards. Up to 9,012,207 shares of our Common Stock may be issued pursuant to awards granted under the 2018 Equity Incentive Plan, as amended. The 2018 Equity Incentive Plan, as amended, is administered by our Board of Directors, has no fixed expiration date, and may be amended, suspended, or terminated by the Board at any time.

In the six months ended June 30, 2023, the Company granted 473,185 stock options under the 2018 Equity Incentive Plan, as amended, to employees. The granted options had an exercise price of \$0.18, expire in ten years from the date of the grant, and vest over four years.

The stock options were valued at a total grant date fair value of \$47,319 using the Black-Scholes pricing model as indicated below:

Expected life (range)	4.4-4.8 years
Risk-free interest rate (range)	1.6-3.7%
Expected volatility (range)	68.7-69.3%
Annual dividend yield	0%

Options granted during the six months ended June 20, 2023 had a weighted average grant date fair value of \$0.10 per share and vesting period of 48 months.

The expected life of stock options is calculated using the simplified method which takes into consideration the contractual life and vesting terms of the options.

The risk-free interest rate assumption for options granted is based upon observed interest rates on the United States government securities appropriate for the expected term of the Company's stock options.

The Company determined the expected volatility assumption for options granted using the historical volatility of comparable public companies' common stock. The Company will continue to monitor peer companies and other relevant factors used to measure expected volatility for future stock option grants, until such time that the Company's Common Stock has enough market history to use historical volatility.

The dividend yield assumption for options granted is based on the Company's history and expectation of dividend payouts. The Company has never declared or paid any cash dividends on its Common Stock, and the Company does not anticipate paying any cash dividends in the foreseeable future.

Management estimated the fair value of Common Stock by looking at a market approach which takes into consideration the value of development to date and subscriber base.

### *Stock Purchase Warrants*

No Stock Purchase Warrants were granted in the six months ended June 30, 2023.

At June 30, 2023, Common Stock Purchase Warrants for the purchase of 1,555,000 shares were vested and outstanding. As of June 30, 2023, these warrants have a weighted average exercise price of \$0.10 per share and a weighted average remaining life of 7.6 years.

*Share-Based Awards Available for Grant*

A summary of share-based awards available for grant under the Company's 2018 Equity Incentive Plan for the six months ended June 30, 2023 and the year ended December 31, 2022 was as follows:

	<b>Shares Available for Grant</b>
Balance at December 31, 2021 (audited)	877,239
Increase in authorized shares	5,650,000
Options granted	(3,441,594)
Options canceled or expired	67,274
Balance at December 31, 2022 (audited)	3,152,919
Options granted	(473,185)
Options canceled or expired	229,123
Balance at June 30, 2023 (unaudited)	<u>2,908,857</u>

*Stock Option Activity and Related Share-Based Compensation Expense*

A summary of stock option activity for the six months ended June 30, 2023 was as follows:

	<b>Options Outstanding</b>		
	<b>Number of Shares</b>	<b>Weighted Average Exercise Price Per Share</b>	<b>Weighted Average Remaining Contractual Life (in Years)</b>
Balance at December 31, 2022 (audited)	5,470,898	\$ 0.18	6.4
Granted	473,185	0.18	
Exercised	-	-	
Canceled or expired	(229,123)	0.15	
Balance at June 30, 2023 (unaudited)	<u>5,714,960</u>	\$ 0.18	6.1

At June 30, 2023, options for the purchase of 1,988,532 shares at a weighted average price of \$0.17 per share and a weighted average remaining contractual life of approximately 7.2 years were vested and exercisable.

The Company will recognize the remaining value of the options through 2027 as follows:

July 1 through December 31, 2023	\$ 48,381
2024	111,190
2025	96,077
2026	76,110
2027	1,196
	<u>\$ 332,954</u>

The Company recognizes stock option forfeitures as they occur, as there is insufficient historical data to accurately determine future forfeiture rates.

**NOTE 8 – SUBSEQUENT EVENTS**

The Company has evaluated subsequent events that occurred after June 30, 2023, the issuance date of these consolidated financial statements, through November 21, 2023. There have been no events or transactions during this time which would have a material effect on these consolidated financial statements, other than those disclosed.

**CNOTE GROUP, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**For the years ended December 31, 2022 and 2021**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders  
CNote Group, Inc.

### Opinion

We have audited the accompanying consolidated financial statements of CNote Group, Inc. and subsidiary (a Delaware corporation), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CNote Group, Inc as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of CNote Group, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CNote Group, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

### Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CNote Group, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CNote Group, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*/s/ dbbmckennon*

Newport Beach, California

May 1, 2023

**CNOTE GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 4,803,648	\$ 3,719,438
Restricted cash (Note 2)	470,438	-
Interest-bearing deposits in banks	27,093,489	48,067,791
Accrued interest receivable	1,640,886	1,031,175
Loans held for investment		
Loans held for investment at amortized cost	10,817,509	19,283,933
Loans held for investment at fair value	62,407,668	38,403,391
Allowance for loan losses	(108,175)	(385,678)
Net loans held for investment	<u>73,117,002</u>	<u>57,301,646</u>
Other assets	127,388	12,665
Total assets	<u>\$ 107,252,851</u>	<u>\$ 110,132,715</u>
<b>Liabilities and Stockholders' Equity</b>		
Notes payable held at amortized cost	\$ 36,213,386	\$ 67,948,323
Notes payable held at fair value	62,407,668	38,403,391
Accrued interest payable	1,273,213	986,188
Deferred revenue	416,667	479,602
Other liabilities	166,129	236,457
Total liabilities	<u>100,477,063</u>	<u>108,053,961</u>
Commitments and contingencies (Note 5)	-	-
<b>Stockholders' Equity</b>		
Preferred stock; par value of \$0.00001 per share; 19,139,449 and 11,009,805 shares authorized, 19,139,449 and 10,851,841 shares issued and outstanding as of December 31, 2022 and 2021, respectively (liquidation preference value of \$14,065,739 and \$6,815,740 as of December 31, 2022 and 2021, respectively)	191	109
Common stock; par value of \$0.00001 per share; 38,000,000 and 22,200,000 shares authorized, 6,802,864 and 6,770,442 shares issued and outstanding as of December 31, 2022 and 2021, respectively	68	68
Additional paid-in capital	14,903,624	7,762,787
Accumulated deficit	(8,128,095)	(5,684,210)
Total stockholders' equity	<u>6,775,788</u>	<u>2,078,754</u>
Total liabilities and stockholders' equity	<u>\$ 107,252,851</u>	<u>\$ 110,132,715</u>

See accompanying notes to the consolidated financial statements.



CNOTE GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Operating Revenues		
Interest income on loans	\$ 1,865,385	\$ 1,481,826
Other interest income	144,004	149,862
Total interest income	2,009,389	1,631,688
Interest expense	1,365,165	1,199,942
Net interest income	644,224	431,746
Provision for (recapture of) loan losses	(277,503)	(137,780)
Net interest income after provision for loan losses	921,727	569,526
Other Income		
Service fees and other income	574,522	330,057
Grants received	415,833	153,849
Total other income	990,355	483,906
Net Revenue	1,912,082	1,053,432
Operating Expenses		
Salaries and employee benefits	2,212,679	1,318,935
Professional services	1,215,742	1,005,380
General and administrative	710,788	294,739
Sales and marketing	215,875	72,300
Total operating expenses	4,355,084	2,691,354
Net loss before taxes	(2,443,002)	(1,637,922)
Provision for income taxes	883	2,400
Net loss	\$ (2,443,885)	\$ (1,640,322)
Weighted average common shares outstanding - basic and diluted	6,771,952	6,702,339
Basic and diluted net loss per share	\$ (0.36)	\$ (0.24)

See accompanying notes to the consolidated financial statements.

**CNOTE GROUP, INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
December 31, 2020	10,851,841	\$ 109	6,653,525	\$ 67	\$ 7,631,519	\$ (4,043,888)	\$ 3,587,807
Exercise of options to purchase common stock	-	-	116,917	1	5,933	-	5,934
Stock-based compensation	-	-	-	-	125,335	-	125,335
Net loss	-	-	-	-	-	(1,640,322)	(1,640,322)
December 31, 2021	10,851,841	\$ 109	6,770,442	\$ 68	\$ 7,762,787	\$ (5,684,210)	\$ 2,078,754
Issuance of series A preferred stock for cash, net of offering costs	8,287,608	82	-	-	7,105,853	-	7,105,935
Exercise of options to purchase common stock	-	-	32,422	-	4,052	-	4,052
Stock-based compensation	-	-	-	-	30,932	-	30,932
Net loss	-	-	-	-	-	(2,443,885)	(2,443,885)
December 31, 2022	19,139,449	\$ 191	6,802,864	\$ 68	\$ 14,903,624	\$ (8,128,095)	\$ 6,775,788

See accompanying notes to the consolidated financial statements.

CNOTE GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (2,443,885)	\$ (1,640,322)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	-	17,169
Stock-based compensation	30,932	125,335
Provision for (recapture of) loan losses	(277,503)	(137,780)
Changes in operating assets and liabilities:		
Accrued interest receivable	(609,711)	(357,747)
Other assets	(114,723)	137,632
Other liabilities	(70,328)	80,078
Deferred revenues	(62,935)	176,297
Accrued interest payable	287,025	359,639
Net cash used in operating activities	<u>(3,261,128)</u>	<u>(1,239,699)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net lendings under loans receivable	(15,384,492)	(26,162,222)
Net investment in interest-bearing accounts	20,974,302	(22,508,540)
Net cash provided by (used in) investing activities	<u>5,589,810</u>	<u>(48,670,762)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net borrowings (repayments) on notes payable	(7,884,021)	49,361,368
Proceeds from issuance of series A preferred stock, net of costs	7,105,935	-
Proceeds from exercise of options to purchase common stock	4,052	5,934
Net cash provided by (used in) financing activities	<u>(774,034)</u>	<u>49,367,302</u>
Increase (decrease) in cash, cash equivalents, and restricted cash	1,554,648	(543,159)
Cash, cash equivalents, and restricted cash, beginning of year	3,719,438	4,262,597
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 5,274,086</u>	<u>\$ 3,719,438</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 1,078,140	\$ 840,303
Cash paid for income taxes	\$ 883	\$ 2,400
<b>Reconciliation of cash, cash equivalents, and restricted cash to the consolidated balance sheets:</b>		
Cash and cash equivalents	\$ 4,803,648	\$ 3,719,438
Restricted cash	<u>470,438</u>	<u>-</u>
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	<u>\$ 5,274,086</u>	<u>\$ 3,719,438</u>

See accompanying notes to the consolidated financial statements.

## CNOTE GROUP, INC

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1 – NATURE OF OPERATIONS

CNote Group, Inc. was incorporated on April 22, 2016 (“Inception”) in the State of Delaware. The Company’s headquarters are located in Oakland, California. The consolidated financial statements of CNote Group, Inc. (which may be referred to as “CNote”, the “Company,” “we,” “us,” or “our”) are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Through its online platform and proprietary technology, CNote allows individuals and institutions to invest locally to further economic equality, racial justice, gender equity, and address climate change. With the aim of closing the wealth gap, CNote’s fixed income and depository solutions provide a diversified and scalable way to support job creation, small business growth, affordable housing development, and lasting economic growth in underserved communities primarily through partnerships with Community Development Financial Institutions (“CDFIs”) dispersed across the United States. CDFIs can be banks, credit unions, loan funds, microloan funds or venture capital providers that focus on providing loans to businesses in economically underdeveloped cities and neighborhoods in the United States and, as such, become qualified as a CDFI by the United States Department of the Treasury. Once qualified, CDFIs are eligible to be partially funded by the United States Department of the Treasury through the CDFI Fund established in 1994.

The Company intends to offer investors competitive rates of return on their investments compared to more traditional lower risk investment vehicles such as cash alternatives and fixed income. The Company earns revenue in a few ways. In addition to the spread (the difference between the rates CNote earns from its CDFI borrowers and the rates it pays to its investors), CNote charges servicing fees on cash deployed on behalf of its clients, and earns consulting fees from foundations and other institutions that are interested in supporting BIPOC communities and promoting the social justice as a part of their investment and programmatic mandates. The consulting work leverages CNote’s knowledge, expertise, and technology in identifying and underwriting CDFIs as well as monitoring and reporting on their financial and social impact performance. For corporate or institutional clients that invest in CDFIs directly, CNote’s internal CDFI underwriting and monitoring technology can be customized to fit their needs.

In December 2018, the Company formed a wholly-owned subsidiary, CNote Lending, LLC, for the purpose of holding a California Finance Lenders license pursuant to the California Financing Law and to make loans to CDFIs. CNote Lending, LLC received its California Finance Lenders license in January 2020.

#### *Management Plans and Going Concern*

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

Fluctuations in market rates of return and other economic trends may impact investors’ appetite for CNote’s fixed income offerings.

On a regular basis, the Company evaluates the rates of return offered on its investments to maintain competitiveness with other instruments from a financial return and impact perspective.

On August 25, 2020, the Company closed a Series Seed equity financing to sell shares of Preferred Stock. On August 31, 2022, the Company closed a Series A equity financing to sell additional shares of 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 anticipates additional financing rounds to raise capital for accelerated growth of the business and has received substantial interest from investors.

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Use of Estimates*

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amount of revenues and expenses during the reporting period. Actual results could materially differ from these estimates.

Significant estimates include but are not limited to the valuation of loan loss reserves, the valuation of stock-based compensation awards, and the valuation allowance related to deferred tax assets. It is reasonably possible that changes in estimates will occur in the near term.

### *Cash and Cash Equivalents*

The Company maintains its cash with major financial institutions located in the United States of America which it believes to be creditworthy. Balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, the Company may maintain balances in excess of the federally insured limits.

Cash equivalents include highly liquid debt instruments purchased with an original maturity of three months or less.

At December 31, 2022, the Company held \$470,438 in cash received as grant funds, to be used for activities in support of the grant's stated goals. This cash is reported on the balance sheet as restricted.

### *Interest-bearing Deposits in Banks*

In connection with its cash management product, the Company facilitates the creation of interest-bearing deposit accounts for the benefit of its clients in community finance depository institutions located in the United States of America. The Company also invests its own operating funds in such institutions in accordance with its treasury management policies. Deposits include certificates of deposits with initial terms of up to 24 months and money market accounts. Balances are insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration up to \$250,000. At times, the Company may maintain balances in excess of the insured limits. In the normal course of business, the Company expects to hold such instruments to maturity.

### *Fair Value of Financial Instruments*

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants as of the measurement date. Applicable accounting guidance provides an established hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors that market participants would use in valuing the asset or liability. There are three levels of inputs that may be used to measure fair value:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Fair-value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of December 31, 2022 and 2021. The respective carrying value of all financial instruments approximated their fair values. These financial instruments include loans held for investment and notes payable and interest receivable and payable.

The Company has adopted fair value presentation for payment-dependent notes issued under Regulation D. These notes are available only to accredited and institutional investors and under the terms of the notes are dependent upon repayment of a portion of the Company's loans to CDFIs. The amount and term to maturity of loans funded by these notes match the underlying loan. If the loan is repaid in accordance with its terms, the note will be repaid in full according to its terms. If the loan does not fully perform, investors in payment-dependent notes will receive payment of the pro-rata portion of any payments received on the loan. Accordingly, the Company has presented payment-dependent notes issued after the date of the fair-value election at their fair value as represented by the note amount less the amount of loan loss reserve recorded against the related loan receivable from CDFIs. See Note 4.

The following tables present the fair value hierarchy for assets and liabilities measured at fair value at December 31, 2022 and 2021:

December 31, 2022	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Balance at Fair Value
<b>Assets:</b>				
Loans held for investment	\$ -	\$ -	\$ 62,407,668	\$ 62,407,668
Total assets	\$ -	\$ -	\$ 62,407,668	\$ 62,407,668
<b>Liabilities:</b>				
Notes payable	\$ -	\$ -	\$ 62,407,668	\$ 62,407,668
Total liabilities	\$ -	\$ -	\$ 62,407,668	\$ 62,407,668

December 31, 2021	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Balance at Fair Value
<b>Assets:</b>				
Loans held for investment	\$ -	\$ -	\$ 38,403,391	\$ 38,403,391
Total assets	\$ -	\$ -	\$ 38,403,391	\$ 38,403,391
<b>Liabilities:</b>				
Notes payable	\$ -	\$ -	\$ 38,403,391	\$ 38,403,391
Total liabilities	\$ -	\$ -	\$ 38,403,391	\$ 38,403,391

The following tables present additional information about Level 3 assets and liabilities measured at fair value at December 31, 2022 and 2021:

	Outstanding Principal Balance	Valuation Adjustments	Fair Value
<b>Balance at December 31, 2020</b>	\$ 9,830,208	\$ (122,718)	\$ 9,707,490
Loan originations	31,935,600	(719,089)	31,216,511
Principal payments and retirements	(2,578,674)	58,064	(2,520,610)
<b>Balance at December 31, 2021</b>	39,187,134	(783,743)	38,403,391
Change in loan loss reserve estimate (see Note 4)	-	391,872	391,872
Loan originations	26,284,277	(262,845)	26,021,432
Principal payments and retirements	(2,433,361)	24,334	(2,409,027)
<b>Balance at December 31, 2022</b>	\$ 63,038,050	\$ (630,382)	\$ 62,407,668

	Outstanding Principal Balance	Valuation Adjustments	Fair Value
<b>Balance at December 31, 2020</b>	\$ 9,830,208	\$ (122,718)	\$ 9,707,490
Notes payable issued	31,935,600	(719,089)	31,216,511
Principal payments and retirements	(2,578,674)	58,064	(2,520,610)
<b>Balance at December 31, 2021</b>	39,187,134	(783,743)	38,403,391
Change in loan loss reserve estimate (see Note 4)	-	391,872	391,872
Notes payable issued	26,284,277	(262,845)	26,021,432
Principal payments and retirements	(2,433,361)	24,334	(2,409,027)
<b>Balance at December 31, 2022</b>	\$ 63,038,050	\$ (630,382)	\$ 62,407,668

### *Loans Held for Investment and Related Notes Payable*

Management expects that the terms of the Company's loans held for investment and the notes payable used to fund the loans held for investment typically will be 30 months or 60 months based on the current operating structure. In the normal course of business, the Company expects to hold such instruments to maturity. However, provisions within the terms of such instruments having 30-month terms allow for liquidity on demand of 10% per quarter. Accordingly, should the need arise, 40% of such loans held for investment and related notes payable can be due on demand within one year.

### *Internal Use Software*

The Company has incurred software development costs to develop software programs to be used solely to meet its internal needs and cloud-based applications used to deliver services. In accordance with Accounting Standards Codification ("ASC") 350-40, Internal-Use Software, the Company has capitalized development costs related to these software applications. The Company begins amortization of these costs once the preliminary project stage is complete and it is probable that the project will be completed, the software will be used to perform the function intended, and the value will be recoverable. Reengineering costs, minor modifications and enhancements that do not significantly improve the overall functionality of the software are expensed as incurred. The Company is amortizing the initial release of the software with capitalized costs of \$231,366 based on the in-service date over 36 months on a straight-line basis. No software development costs for not yet released programs and applications met the criteria for capitalization in 2022 or 2021. Amortization of capitalized software development costs recorded to expense was \$0 and \$17,169 for the years ended December 31, 2022 and 2021, respectively. Accumulated amortization as of December 31, 2022 and 2021 was \$231,366.

### *Stock Options and Warrants*

The Company has issued stock options and warrants to employees and to key advisors as compensation for services performed. The Company has accounted for these awards under ASC section 718 and Accounting Standards Update ("ASU") 2018-07. Stock-based compensation cost is measured at the grant date based on the fair value of the award using an established option pricing model and is recognized as expense ratably over the requisite service period, which is generally the option or warrant vesting period. See Note 8.

### *Revenue Recognition and Cost of Revenues*

CNote deploys capital from individuals and institutions to CDFIs and on behalf of its clients to community finance depository institutions. The Company earns interest on its loan deployments, which are a significant source of its revenues. All such deployments are governed by signed contracts between the Company on the one hand and either the CDFIs or the community finance depository institutions on the other hand. Interest income is recorded based on the terms of the master promissory agreement with each CDFI Loan Fund or the terms of Money Market or Certificate of Deposit agreements with depository institutions. The interest is accrued monthly. If ninety (90) days pass without the interest being paid in accordance with normal disbursement practices per the agreement, then the Company will cease recording revenue until such time that the interest is collected.

CNote aggregates money from individuals and institutions through its online platform. The Company must pay interest on the capital to its clients. All such loans are governed by signed contracts between the Company and investors. The interest, which accrues according to the agreements' governing terms of the loans from clients, constitutes the major portion of the Company's direct cost of interest income. Other direct costs of interest income include the provision for loan loss reserve.

CNote also generates fees from consulting work performed on behalf of foundations and other institutions who as a part of their investment and programmatic mandates are interested in supporting BIPOC communities and promoting social justice. This consulting work leverages CNote's knowledge, expertise and technology in identifying and underwriting CDFIs as well as monitoring and reporting on their financial and impact performance. For corporate or institutional clients that invest in CDFIs directly, CNote's internal CDFI underwriting and monitoring technology can be customized to fit their needs. Revenue for these activities is recognized over the period in which the work is performed and is deferred until recognizable.

CNote earns servicing fees on clients' cash deposited into community finance depository organizations via CNote's proprietary technology. These fees are accrued in accordance with signed agreements between the Company and its clients, and in accordance with those agreements are deducted from earnings disbursed to clients, or paid by clients via invoice.

From time to time, CNote receives grants from foundations and other institutions. The Company records grants received as revenue when all donor-imposed conditions on the grant have been satisfied and defers revenue which has not yet met the conditions for recognition. For grants that specify a service period or service requirements, including research studies or similar activities, revenues are recognized over the term of the arrangement as the underlying services are performed.

### *Loan Loss Reserve*

The Company establishes a reserve for potential losses to loans extended to CDFIs, other than those funded by payment-dependent notes and measured at fair value. The amount of the loan loss reserve is determined based on industry norms and trends, as well as the Company's historical experience. Since commencing operations, the Company has not experienced any delinquencies or charge-offs of loans to CDFIs. From inception through December 31, 2021, the Company established the reserve at two percent of principal. Based upon changes in overall industry rates for similar loans, and on the Company's historical experience, the reserve rate was revised to one percent for the year ended December 31, 2022.

Other than adjustments for changes in estimates, reversals to the loan loss reserve will happen only when the loans mature. If no loss has occurred on a particular loan, the loss reserve will be reversed and recognized as a reduction of the loan loss reserve at maturity of the loan. On the other hand, if any loan becomes completely unrecoverable, the entire amount of the loan will be charged off against the loan loss reserve, when and if facts and circumstances indicate that such a write off is necessary.

The Company uses fair value presentation for payment-dependent notes issued under Regulation D. The Company has presented payment-dependent notes at their fair value as represented by the note amount less the amount of loan loss reserve recorded against the related loan receivable from CDFIs. The amount recognized in expense by the Company as provision for loan losses is reduced by the portion of the loan loss reserve recorded against such notes. See Note 4.

### *Nonaccrual Loans*

Loans that are 90 days past due as to principal or interest are placed on nonaccrual status, and accrued interest receivable on the loan is reversed. Loans are restored to accrual status when all principal and interest is current and full repayment of the remaining contractual principal and interest is expected.

### *Advertising*

The Company expenses the cost of advertising and promotions as incurred. Advertising costs expensed totaled \$44,095 and \$50,158 for the years ended December 2022 and 2021, respectively.

### *Research and Development*

The Company incurs research and development costs during the process of researching and developing new technologies and future online offerings. Such costs are expensed as incurred.

### *Income Taxes*

The Company applies ASC section 740. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial statement reported amounts at each period end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax expense for the period, if any, and the change during the period in deferred tax assets and liabilities. At December 31, 2022 and 2021, the Company has established a full reserve against all deferred tax assets.

ASC 740 also provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. A tax benefit from an uncertain position is recognized only if it is "more likely than not" that the position is sustainable upon examination by the relevant taxing authority based on its technical merit.

### *Loss per Common and Common Equivalent Share*

The computation of basic earnings per common share is computed using the weighted average number of common shares outstanding during the year. The computation of diluted earnings per common share excludes Common Stock equivalents for the years ended December 31, 2022 and 2021 as they are anti-dilutive. The Common Stock equivalents, which include outstanding convertible Preferred Stock, options, and warrants, excluded from diluted loss per share total 26,165,347 and 14,135,841 share equivalents for the years ended December 31, 2022 and 2021, respectively.

### *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of CNote Group, Inc., its wholly-owned subsidiary, CNote Lending, LLC, and CNote Trust, of which CNote was a trustee until CNote Trust was dissolved on May 24, 2022. All intercompany accounts and transactions have been eliminated in consolidation.



### *Recent Accounting Pronouncements*

ASU 2016-13, as amended by ASU 2019-10, changes the accounting for credit losses measurement on loans and debt securities. For loans and held-to-maturity securities, the Update requires a current expected credit loss ("CECL") measurement to estimate the allowance for credit losses for the remaining estimated life of the financial asset. The CECL measurement must be developed using historical experience, current conditions, and reasonable and supportable forecasts. The standard will also expand disclosure requirements. Adoption of the new standard is required for the Company effective January 1, 2023. The Company does not expect the adoption of this standard to materially affect the Company's consolidated financial statements.

The Financial Accounting Standards Board issues Accounting Standards Updates to amend the authoritative literature in ASC. There have been a number of ASUs to date that amend the original text of ASC. The Company believes those issued to date either (i) provide supplemental guidance, (ii) are technical corrections, (iii) are not applicable to the Company or (iv) are not expected to have a significant impact on the Company.

### **NOTE 3 – LOANS HELD FOR INVESTMENT AND INTEREST RECEIVABLE**

Loans held for investment represent the principal amounts of outstanding loans the Company has made to CDFIs, less loan loss reserves as described below. Interest receivable represents the outstanding interest due from CDFI borrowers.

As of December 31, 2022, the Company has outstanding loans and interest receivable from 35 CDFI borrowers in the gross carrying amount of approximately \$75,495,000. Under terms of the respective master promissory notes, the loans earn interest at rates ranging from 1.5% to 4.5% per annum. Interest on the loans is due according to each loan's contractual terms, which range from monthly payment of interest, to interest due at maturity. The loans mature in 30 to 96 months and may be prepaid by the borrower at any time without penalty. For loans with 30-month terms, the Company has the option to request repayment of 10% of the original loan amount on a quarterly basis. These requests are based on the requests of note payable holders disclosed in Note 4.

During the year ended December 31, 2022, the Company was repaid approximately \$11,158,000 on the principal of loans held for investment which were used to repay notes payable.

As of December 31, 2021, the Company had outstanding loans and interest receivable from 32 CDFI borrowers totaling approximately \$59,499,000. During the year ended December 31, 2021, the Company was repaid approximately \$13,355,000 on the principal of loans held for investment which were used to repay notes payable.

The Company has recorded a provision for loan losses, as described in Note 2. The loan loss reserve totaled \$108,175 and \$385,678 as of December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, all loans were contractually current and no loans had been placed on nonaccrual status. No loans were modified during the years ended December 31, 2022 and 2021.

The table below summarizes the changes in the allowance for credit losses for the years ended December 31, 2022 and 2021:

Allowance for loan losses, December 31, 2020	\$	523,458
Loans charged off		-
Recoveries of previously charged off loans		-
Net charge-offs		-
Provision for (recapture of) loan losses		(137,780)
Allowance for loan losses, December 31, 2021	\$	385,678
Loans charged off		-
Recoveries of previously charged off loans		-
Net charge-offs		-
Provision for (recapture of) loan losses		(277,503)
Allowance for loan losses, December 31, 2022	\$	<u>108,175</u>

As of December 31, 2022, loans held for investment have approximate contractual maturities as follows:

Year Ending December 31,		
2023	\$	17,949,000
2024		14,727,000
2025		25,680,000
2026		10,900,000
2027		3,600,000
Thereafter		1,000,000
Total	\$	<u>73,856,000</u>

#### NOTE 4 – NOTES PAYABLE, INTEREST PAYABLE AND LONG-TERM LIABILITIES

##### *Notes Payable*

Notes payable represent the principal amounts of outstanding borrowings from individual and institutional clients. Interest payable represents the outstanding interest the Company owes to the note holders. Notes payable from clients are not a source of financing for the Company's operations; rather, they are used to fund CDFI loans held for investment (Note 3) and short-term investments in CDFIs under the Company's cash management program.

As of December 31, 2022 and 2021, gross notes payable totaled approximately \$99,251,000 and \$107,135,000, respectively. Notes issued to investors in the Company's CDFI loans mature in 30 to 96 months and earn interest at the rate of 0.5% to 4.0% per annum. Additionally, the interest rate may be adjusted to the extent rates earned from loans to CDFIs vary in the future. Notes with original 30-month maturities issued under Regulation D may be rolled over for additional 30-month terms at the option of the holder. Certain notes provide the holder an option to call 10% of the original note balance each quarter. As of December 31, 2022, a total of \$29,175 of notes are due to related parties subject to the same terms.

The Company has adopted fair value presentation for payment-dependent notes payable issued under Regulation D. These notes are available only to accredited and institutional investors and under the terms of the notes are dependent upon repayment of a portion of the Company's loans to CDFIs. The amount and term to maturity of loans funded by these notes match the underlying note. If the loan is repaid in accordance with its terms, the note will be repaid in full according to its terms. If the loan does not fully perform, investors in payment-dependent notes will receive payment of the pro-rata portion of any payments received on the loan. Accordingly, the Company has presented payment-dependent notes at their fair value as represented by the note amount less the amount of loan loss reserve recorded against the related loan receivable from CDFIs, at a rate of one percent in 2022 and two percent in 2021, as described in Note 2. At December 31, 2022 and 2021, the Company has recorded a valuation adjustment for notes subject to this presentation in the amount of \$630,382 and \$783,743, respectively.

As of December 31, 2022, notes payable mature approximately as follows:

Year Ending December 31,	
2023	\$ 44,457,000
2024	17,714,000
2025	21,580,000
2026	10,900,000
2027	3,600,000
Thereafter	1,000,000
<b>Total</b>	<b>\$ 99,251,000</b>

#### NOTE 5 – COMMITMENTS AND CONTINGENCIES

##### *Litigation*

The Company is not currently involved with, and does not know of, any pending or threatening litigation against the Company or any of its officers.

#### NOTE 6 – INCOME TAXES

On March 27, 2020, the United States enacted the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). The CARES Act includes provisions relating to refundable payroll tax credits, deferment of the employer portion of certain payroll taxes, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. The CARES Act also established a Paycheck Protection Program whereby certain small businesses are eligible for a loan to fund payroll expenses, rent, and related costs.

The Company considered the provisions under the CARES Act and elected not to take advantage of the provisions of CARES Act as the effect of such provisions was not expected to have a material impact on the Company’s results of operations, cash flows and financial statements.

The following table presents the current and deferred tax provision for federal and state income taxes for the years ended December 31, 2022 and 2021:

	2022	2021
Current tax provision		
Federal	\$ -	\$ -
State	883	2,400
<b>Total</b>	<b>\$ 883</b>	<b>\$ 2,400</b>
Deferred tax provision (benefit)		
Federal	\$ (507,000)	\$ (317,000)
State	(213,000)	(133,000)
Valuation allowance	720,000	450,000
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total provision for income taxes</b>	<b>\$ 883</b>	<b>\$ 2,400</b>

In assessing the potential realization of these deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the Company attaining future taxable income during the periods in which those temporary differences become deductible. As of December 31, 2022 and 2021, management was unable to determine if it is more likely than not that the Company’s deferred tax assets will be realized, and has therefore recorded an appropriate valuation allowance against deferred tax assets at such dates.

The components of our deferred tax assets (liabilities) for federal and state income taxes consisted of the following as of December 31, 2022 and 2021:

	2022	2021
Deferred tax asset attributable to:		
Net operating loss carryover	\$ 1,977,000	\$ 1,266,000
Temporary differences	141,000	132,000
Valuation allowance	(2,118,000)	(1,398,000)
Net deferred tax asset	\$ -	\$ -

The valuation allowance for deferred tax assets increased to \$2,118,000 and \$1,398,000 during the years ended December 31, 2022 and 2021, respectively.

Based on federal tax returns filed, or to be filed, through December 31, 2022, the Company has available approximately \$6,625,000 in U.S. tax net operating loss carryforwards, pursuant to the Tax Reform Act of 1986, which assesses the utilization of a Company's net operating loss carryforwards resulting from retaining continuity of its business operations and changes within its ownership structure. Net operating loss carryforwards of approximately \$485,000 start to expire in 2036 or 20 years for federal income tax reporting purposes. Under the CARES Act, net operating loss carryforwards of approximately \$6,140,000 arising from tax years beginning after 2017 can be carried forward indefinitely. For California state tax reporting purposes, net operating loss carryforwards cannot be used in tax years beginning on or after January 1, 2020 and before January 1, 2023 in accordance with California Assembly Bill 85. The Company's net operating loss carryforwards will begin to expire in 2036 for state tax reporting purposes.

The Company is subject to tax in the United States ("U.S.") and files tax returns in the U.S. Federal jurisdiction and California state jurisdiction. The Company is subject to U.S. Federal, state and local income tax examinations by tax authorities starting in 2016. The Company currently is not under examination by any tax authority.

#### **NOTE 7 – RELATED PARTY TRANSACTIONS**

As of December 31, 2022, \$29,175 of the individual notes payable are due to Company's two co-founders and two close relatives of one of the co-founders. See Note 4.

#### **NOTE 8 – STOCKHOLDERS' EQUITY**

##### *Preferred Stock*

The Company is authorized to issue 19,139,449 shares of Preferred Stock, each having a par value of \$0.00001. Of such Preferred Stock, 8,287,608 shares are designated as "Series A Preferred Stock" with a liquidation preference of \$0.8748, 4,857,827 shares are designated as "Series Seed-1 Preferred Stock" with a liquidation preference of \$0.7062, 1,601,857 shares are designated as "Series Seed-2 Preferred Stock" with a liquidation preference of \$0.60835, 3,948,339 shares are designated as "Series Seed-3 Preferred Stock" with a liquidation preference of \$0.56496, and 443,818 shares are designated as "Series Seed-4 Preferred Stock" with a liquidation preference of \$0.40557. The Preferred Stock is convertible to Common Stock at a one for one basis at the option of the holder, ranks pari passu with Common Stock with respect to dividends (other than dividends on shares of Common Stock payable in Common Stock) and payments in the event of any voluntary or involuntary dissolution or winding up of the Company. In the event of a Deemed Liquidation Event, as defined in the Company's Certificate of Incorporation, holders of Preferred Stock shall be entitled to receive preferential payment, before any distribution or payment is made to holders of Common Stock, of an amount defined as the Liquidation Amount in the Company's Certificate of Incorporation. Each holder of Preferred Stock has voting rights equal to the number of shares of Common Stock into which the holder's Preferred Stock is convertible as of the record date for determining voting eligibility.

On August 31, 2022, the Company issued 8,287,608 Preferred Shares in its Series A financing, in exchange for cash consideration of \$0.8748 per share, for total proceeds of \$7,250,000.

As of December 31, 2022 and 2021, respectively, 19,139,449 and 10,851,841 shares of Preferred Stock are issued and outstanding.

##### *Costs of Series A Financing*

The Company incurred legal costs of \$144,065 related to the closing of its Series A financing during 2022. These costs were recorded as a reduction of additional paid in capital received in the Series A financing.

The Company issued Common Stock purchase warrants for a total of 400,000 shares to advisors for services performed in connection with the Series A financing. The value of the warrants granted, totaling \$43,958, was accounted for as a cost of the financing. As the granting of the warrants is both an increase and a decrease in additional paid in capital, the net effect of the warrants' issuance on the Company's equity accounts is \$0 for the year ended December 31, 2022. Please see below for discussion of valuation of the warrants at issuance.

## Common Stock

At December 31, 2022, the Company is authorized to issue 38,000,000 shares of Common Stock, each having a par value of \$0.00001. As of December 31, 2022, 6,802,864 shares of Common Stock are issued and outstanding, 6,000,000 of which are held by the Company's two co-founders who remain active in the daily operations of the Company. As of December 31, 2021, 22,200,000 shares of Common Stock were authorized and 6,770,442 shares of Common Stock were issued and outstanding, 6,000,000 of which were held by the Company's two co-founders.

## Stock Options

In 2018, the Company's Board of Directors adopted the CNote Group, Inc. 2018 Equity Incentive Plan (the "2018 Equity Incentive Plan"). The 2018 Equity Incentive Plan was amended in 2020 and 2022 to increase the number of shares of Common Stock authorized thereunder. The 2018 Equity Incentive Plan, as amended, provides for the grant of equity awards to employees, and consultants, including stock options, stock appreciation rights and other stock or cash-based awards. Up to 9,012,207 shares of our Common Stock may be issued pursuant to awards granted under the 2018 Equity Incentive Plan, as amended. The 2018 Equity Incentive Plan, as amended, is administered by our Board of Directors, has no fixed expiration date, and may be amended, suspended, or terminated by the Board at any time.

In 2022, the Company granted 3,441,594 stock options under the 2018 Equity Incentive Plan, as amended, to various advisors and employees. The granted options had an exercise price range of \$0.180 to \$0.198, expire in five to ten years from the date of the grant, and vest over four years.

The stock options were valued at a total grant date fair value of \$311,377 using the Black-Scholes pricing model as indicated below:

Expected life (range)	3.7-4.5 years
Risk-free interest rate	4.3%
Expected volatility	69.9%
Annual dividend yield	0%

Options granted during 2022 had a weighted average grant date fair value of \$0.09 per share and vesting period of 48 months.

In 2021, the Company granted 2,066,423 stock options under the 2018 Equity Incentive Plan, as amended, to various advisors and employees. The granted options had an exercise price range of \$0.150 to \$0.165, expire in ten years from the date of the grant, and vest over periods ranging from zero to four years.

The stock options were valued at a total grant date fair value of \$217,167 using the Black-Scholes pricing model as indicated below:

Expected life (range)	3.8-5.0 years
Risk-free interest rate (range)	1.0-1.2%
Expected volatility (range)	93.9-95.1%
Annual dividend yield	0%

The expected life of stock options is calculated using the simplified method which takes into consideration the contractual life and vesting terms of the options.

The risk-free interest rate assumption for options granted is based upon observed interest rates on the United States government securities appropriate for the expected term of the Company's stock options.

The Company determined the expected volatility assumption for options granted using the historical volatility of comparable public companies' common stock. The Company will continue to monitor peer companies and other relevant factors used to measure expected volatility for future stock option grants, until such time that the Company's Common Stock has enough market history to use historical volatility.

The dividend yield assumption for options granted is based on the Company's history and expectation of dividend payouts. The Company has never declared or paid any cash dividends on its Common Stock, and the Company does not anticipate paying any cash dividends in the foreseeable future.

Management estimated the fair value of Common Stock by looking at a market approach which takes into consideration the value of development to date and subscriber base.

### Stock Purchase Warrants

In August 2022, for services received in connection with the Company's Series A financing, the Company granted to an advisor Common Stock Purchase Warrants for the purchase of 400,000 shares at a purchase price of \$0.18 per share. The term of the warrant was ten years. The warrant was valued at a total grant date fair value of \$43,958 using the Black-Scholes pricing model as indicated below. The value of the warrants was accounted for as a cost of raising capital in connection with the Series A financing, as discussed above.

Expected life (years)	5.0
Risk-free interest rate	4.2%
Expected volatility	69.9%
Annual dividend yield	0%

The expected life, risk-free interest rate, expected volatility, and dividend yield assumptions used in pricing the warrants granted were derived as described above for options granted. The warrants remain outstanding as of December 31, 2022.

No Stock Purchase Warrants were granted in 2021.

At December 31, 2022, Common Stock Purchase Warrants for the purchase of 1,555,000 shares were vested and outstanding. As of December 31, 2022, these warrants have a weighted average exercise price of \$0.10 per share and a weighted average remaining life of 8.1 years.

### Share-Based Awards Available for Grant

A summary of share-based awards available for grant under the Company's 2018 Equity Incentive Plan for the years ended December 31, 2022 and 2021 was as follows:

	Shares Available for Grant
Balance at December 31, 2020	2,894,700
Options granted	(2,066,423)
Options canceled or expired	48,962
Balance at December 31, 2021	877,239
Increase in authorized shares	5,650,000
Options granted	(3,441,594)
Options canceled or expired	67,274
Balance at December 31, 2022	3,152,919

### Stock Option Activity and Related Share-Based Compensation Expense

A summary of stock option activity for the year ended December 31, 2022 was as follows:

	Options Outstanding		
	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in Years)
Balance at December 31, 2021	2,129,000	\$ 0.15	9.8
Granted	3,441,594	0.20	
Exercised	(32,422)	0.12	
Canceled or expired	(67,274)	0.15	
Balance at December 31, 2022	5,470,898	\$ 0.18	6.4

At December 31, 2022, options for the purchase of 1,486,907 shares at a weighted average price of \$0.16 per share and a weighted average remaining contractual life of approximately 8.4 years were vested and exercisable.

Expense for the issuance of stock options and warrants for the years ended December 31, 2022 and 2021 was \$30,932 and \$125,335, respectively. This expense was recorded in the Company's consolidated statements of operations as follows:

	2022	2021
Salaries and employee benefits	\$ 27,353	\$ 118,364
Professional services	3,579	6,971
	<u>\$ 30,932</u>	<u>\$ 125,335</u>

The Company will recognize the remaining value of the options through 2026 as follows:

2023	\$ 71,655
2024	96,455
2025	90,930
2026	64,730
	<u>\$ 323,770</u>

The Company recognizes stock option forfeitures as they occur, as there is insufficient historical data to accurately determine future forfeiture rates.

#### **NOTE 9 – SUBSEQUENT EVENTS**

The Company has evaluated subsequent events that occurred after December 31, 2022 through May 1, 2023, the issuance date of these consolidated financial statements.

There have been no events or transactions during this time which would have a material effect on these consolidated financial statements, other than those disclosed.

## GLOSSARY OF DEFINED TERMS

Act	The Securities Act of 1933, as amended.
Company	CNote Group, Inc., a public benefit corporation formed under the laws of Delaware.
CDFI	A Community Development Financial Institutions certified by the U.S. Department of the Treasury.
CFO	A community finance organization.
Investor	Anyone who purchases a Note in the Offering.
Notes	The promissory notes being issued to Investors in this Offering.
Offering	The offering of Notes to the public, pursuant to this Offering Circular.
Offering Circular	The Offering Circular you are reading right now, which includes information about the Company, the Notes, and the Offering.
Platform	The Internet site located at <a href="https://www.mycnote.com">https://www.mycnote.com</a> .

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FORM 1-A

Regulation A Offering Statement

Part III – Exhibits

**CNOTE GROUP, INC.**

2323 Broadway  
Oakland, CA 94612  
424-262-6683

<https://www.mynote.com>

December 21, 2023

The following Exhibits are filed as part of this Offering Statement:

**Exhibit 1A-2A** Certificate of Incorporation\*

**Exhibit 1A-2B** Bylaws\*

**Exhibit 1A-6A** Subscription Agreement\*

**Exhibit 1A-6B** Form of Note\*

**Exhibit 1A-11** [Consent of Independent Auditor](#)

**Exhibit 1A-12** Legal opinion of Lex Nova Law LLC\*

\*Previously filed

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**SIGNATURES**

Pursuant to the requirements of Regulation A, the issuer certifies that it has reasonable grounds to believe that it meets all the requirements for filing on Form 1-A and has duly caused this offering statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Oakland, State of California, on December 21, 2023.

**CNOTE GROUP, INC.**

By /s/ Catherine Berman  
Catherine Berman, CEO

This offering statement has been signed by the following persons in the capacities and on the dates indicated.

/s/ Catherine Berman  
Catherine Berman, Chief Executive Officer,  
President, Director

December 21, 2023

/s/ Yuliya Tarasava  
Yuliya Tarasava, Chief Operating Officer,  
Treasurer, Secretary, Director

December 21, 2023

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CONSENT OF INDEPENDENT AUDITORS

We consent to the use, in this Offering Statement on Form 1-A, of our independent auditors' report dated May 1, 2023, with respect to our audits of the consolidated financial statements of CNote Group, Inc. and subsidiary as of and for the years ended December 31, 2022 and 2021.

/s/ dbbmckennon

Newport Beach, California  
December 21, 2023

20321 SW Birch Street, Suite 200 Newport Beach, California 92660-1756 P: 949.200.3280 F: 949.200.3281 www.dbbmckennon.com

Santa Monica

Newport Beach

San Diego

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