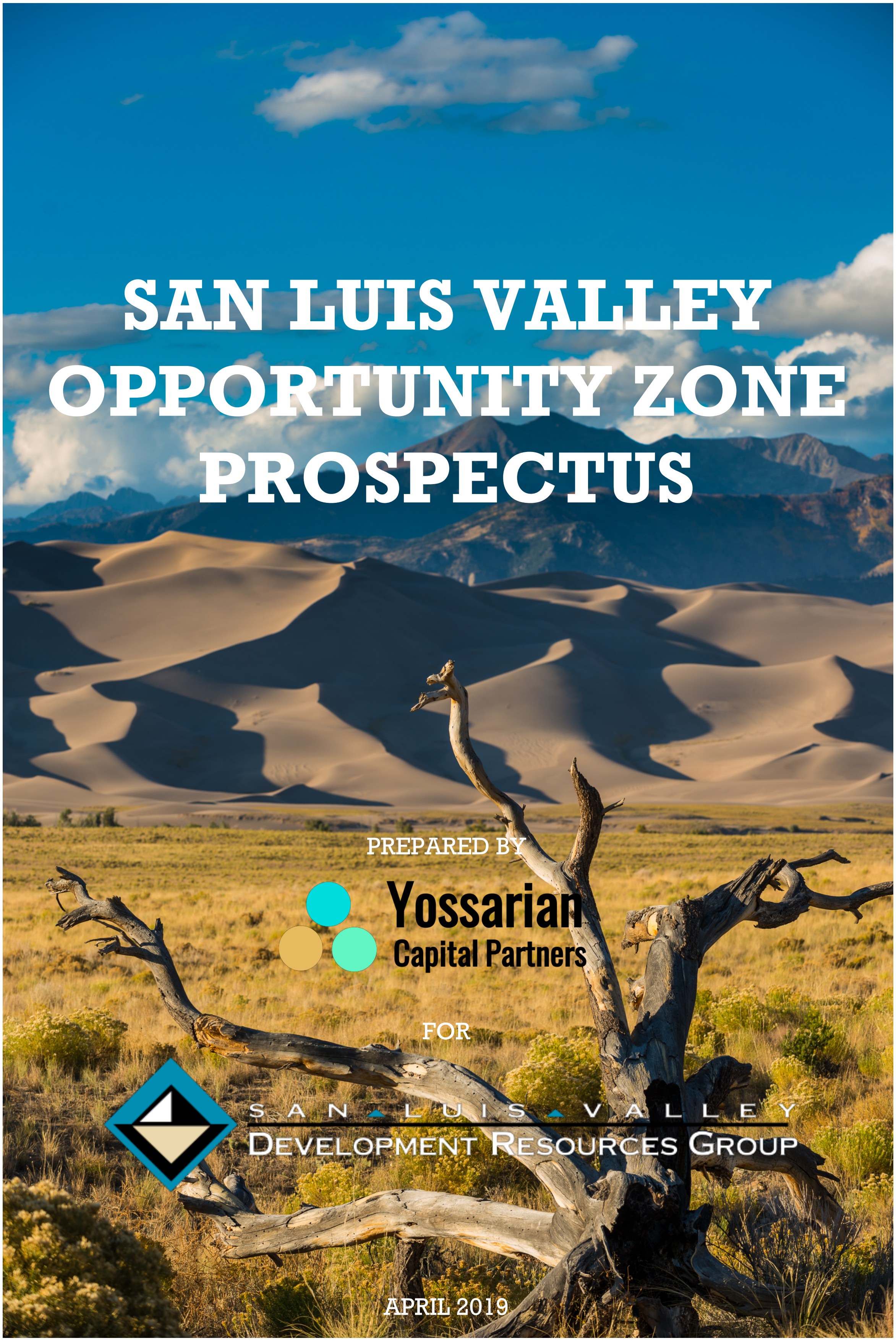

SAN LUIS VALLEY OPPORTUNITY ZONE PROSPECTUS

PREPARED BY

Yossarian Capital Partners

FOR

San Luis Valley Development Resources Group

APRIL 2019

EXECUTIVE SUMMARY

Yossarian Capital Partners ("YCP") was engaged by the San Luis Valley Development Resources Group & Council of Governments ("SLVDRG") to develop a community prospectus that provides an overview of the community, its strategic advantages and economic drivers, and a pipeline of potential investments to assist the San Luis Valley in soliciting potential investors within its designated Opportunity Zones.

In developing this prospectus, YCP took a formal qualitative and quantitative approach to understanding the counties of Costilla, Alamosa, Rio Grande, and Saguache. We spent time onsite conducting interviews with SLVDRG personnel, key community and business stakeholders, and reviewing existing community marketing materials and reports. This was further supplemented with an analysis of publicly available government data both historical to present day in order to identify underlying trends and potential growth areas. This process highlighted several community thematics that serve as areas of concern for growth, but also potential opportunities for investment. Moreover, it underscored the certain strategic advantages of the region that are delineated later in this report.

Finally, YCP held office hours for local businesses seeking funding to build out an investment pipeline that can be presented to potential investors interested in deploying capital within the region. Unfortunately, our interactions with entrepreneurs and local businesses owners revealed that many of the potential investments were either: (i) not in Opportunity Zones, (ii) in early R&D or startup phase which is not attractive to institutional investors who are the most active investor demographic within Opportunity Zones, or (iii) were not interested in taking funding from an outside investor. As a result, we expanded the pipeline from being Opportunity Zone focused to considering all opportunities within the San Luis Valley region. Given that most businesses that were presented to us were not institutional investor ready and the most promising ones were unfamiliar or disinterested in outside capital, YCP recommends that the San Luis Valley consider establishing its own equity funding source to bridge the funding and familiarity with private equity gap until its local businesses can gain the traction needed for institutional investment. YCP proposes a funding mechanism, such as, an angel network or fund to make small equity investments in local businesses. This will not only foster the entrepreneurial spirit evident in the community, but it will provide an alternative funding source and help businesses scale to a size that is attractive to larger institutional private equity investors.

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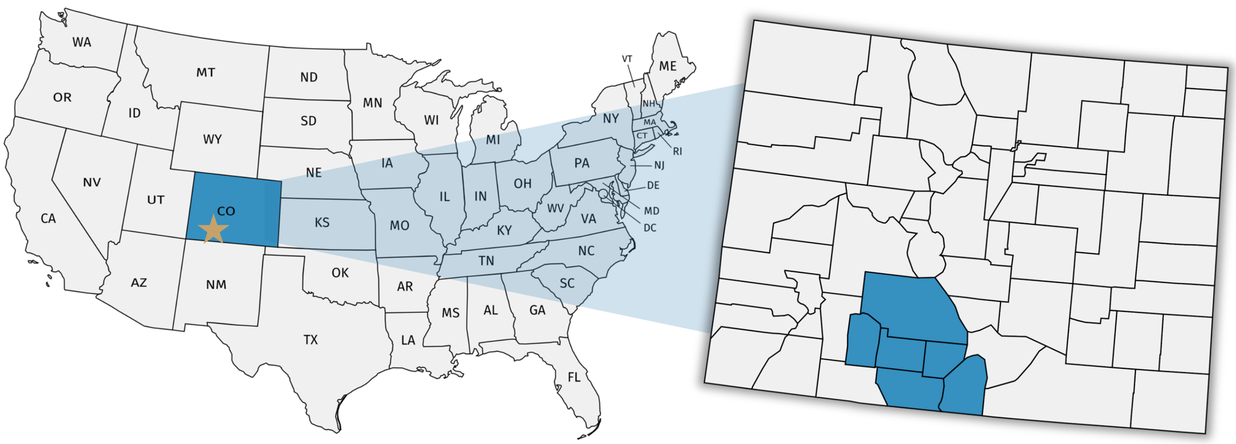
COMMUNITY OVERVIEW

The San Luis Valley ("SLV") is located in south-central Colorado, approximately midway between Denver, Colorado and Albuquerque, New Mexico. It is the largest and highest alpine valley in the world, covering over 8,000 square miles at an elevation of 7,544 feet, and is the one of the largest producers of fresh potatoes in the United States, accounting for nearly 5% of the country's total annual output[1].

LOCATION OF SAN LUIS VALLEY



Source: mapchart.net

The valley is an expansive bowl currently accessible by car, bus, and air. SLV connects to the I-25, Colorado's major North-South interstate, 70 miles to the west via US 160. This highway is the major East-West route through the valley, and is the predominant route for trucks, commuters, and personal travelers year-round. US 285 highway, which generally carries less traffic, runs North-South through the valley connecting with New Mexico in the South and Salida in the North. The drive time north to Denver is approximately four hours and heading south to Albuquerque is roughly a three-and-a-half-hour drive. Public buses are provided by the Colorado Department of Transportation from Alamosa to Pueblo with an additional connection to Denver. Regional air service is available at the San Luis Valley Regional Airport in Alamosa with a few commercial flights to and from Denver per day provided by Boutique Air. The predominant rail service in the valley is freight services for agriculture products, and there is a scenic railroad that runs east from Alamosa into La Veta Pass and one that runs south from Antonito into New Mexico along the border and over Cumbres Pass.

The total population of 46,578 in the valley is split across six counties: Alamosa, Conejos, Costilla, Mineral, Rio Grande, and Saguache, with 59% of the population concentrated in Alamosa and Rio Grande counties: 35% in Alamosa and 24% in Rio Grande. Across all six counties, the population is primarily Hispanic (47%) and white (49%) while relatively evenly split between men and women.

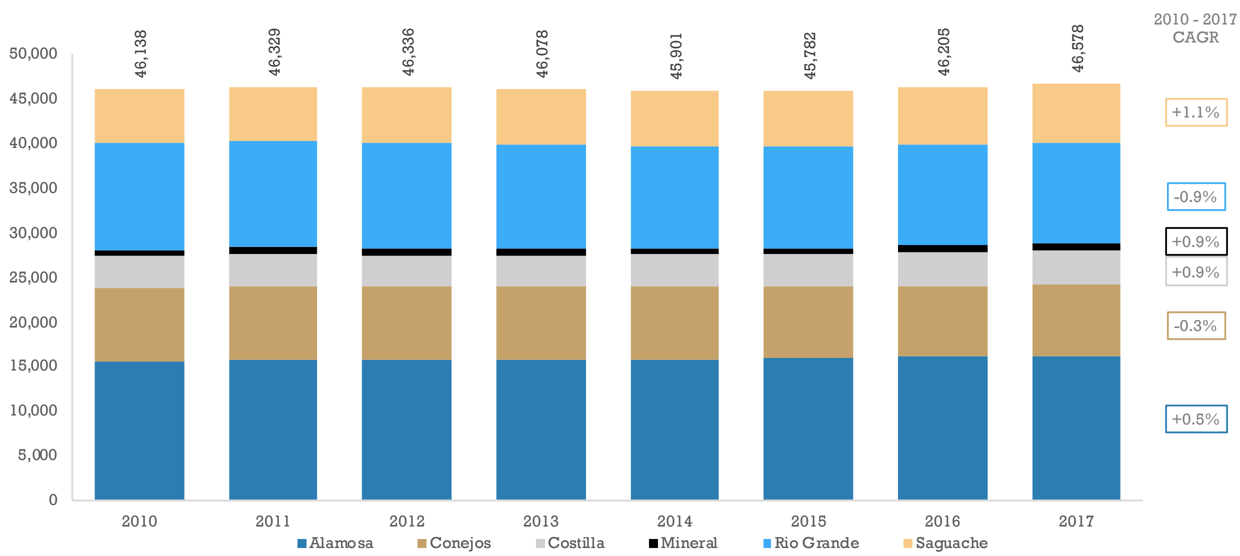
SAN LUIS VALLEY: COUNTY LINES, MAJOR HIGHWAYS, AND RIVERS

Source: San Luis Valley Development Resources Group, 2018 Comprehensive Economic Development Strategy

[1] National Agricultural Statistics Service, *Agricultural Statistics 2017*.

The population is particularly concentrated in just two cities in SLV, with nearly 20% of the entire population based in the City of Alamosa, and a further 9% is in the City of Monte Vista (the main city in Rio Grande County). Total population growth has remained relatively flat over recent years with average annual population growth rate of just 0.1% from 2010 to 2017, resulting in a population increase over the period of just 440 people. The split across the counties has remained consistent, although Alamosa has seen the largest absolute increase in population.

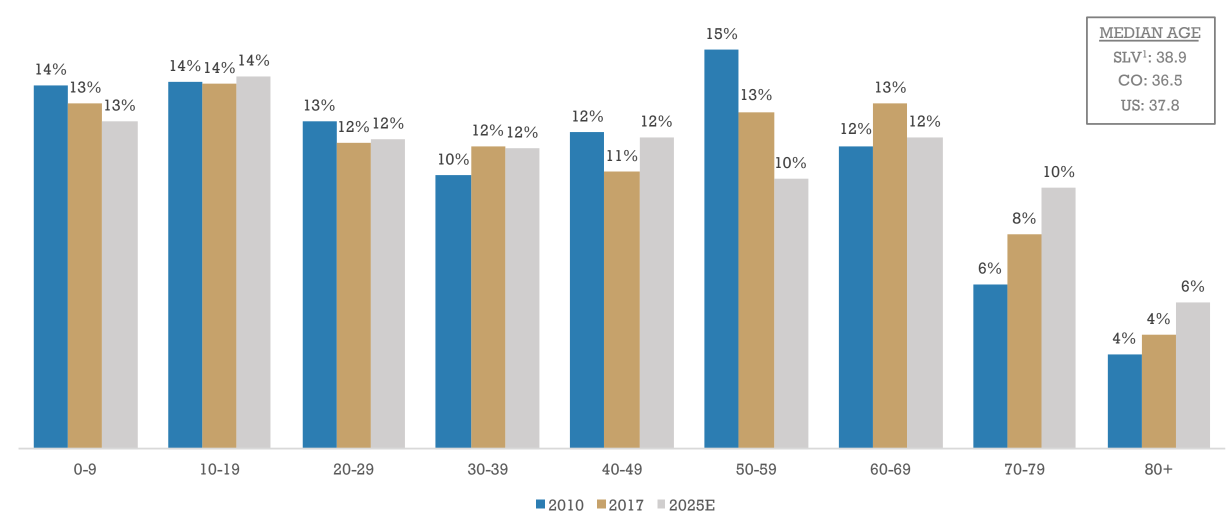
POPULATION GROWTH, 2010 - 2017



Source: U.S. Census Bureau; Colorado State Demography Office

While population growth has been relatively stagnant, the composition of the population has been changing. The proportion of the population under 29 years of age is expected to continue to decline from 41% in 2010 to 39% in 2025 while the proportion of the population over the age of 60 is expected to increase from 22% in 2010 to 28% in 2025. This aging has driven the median age of SLV up to 38.9, which is one to two years older than the state and national averages.

POPULATION BY AGE, 2010 – 2025E

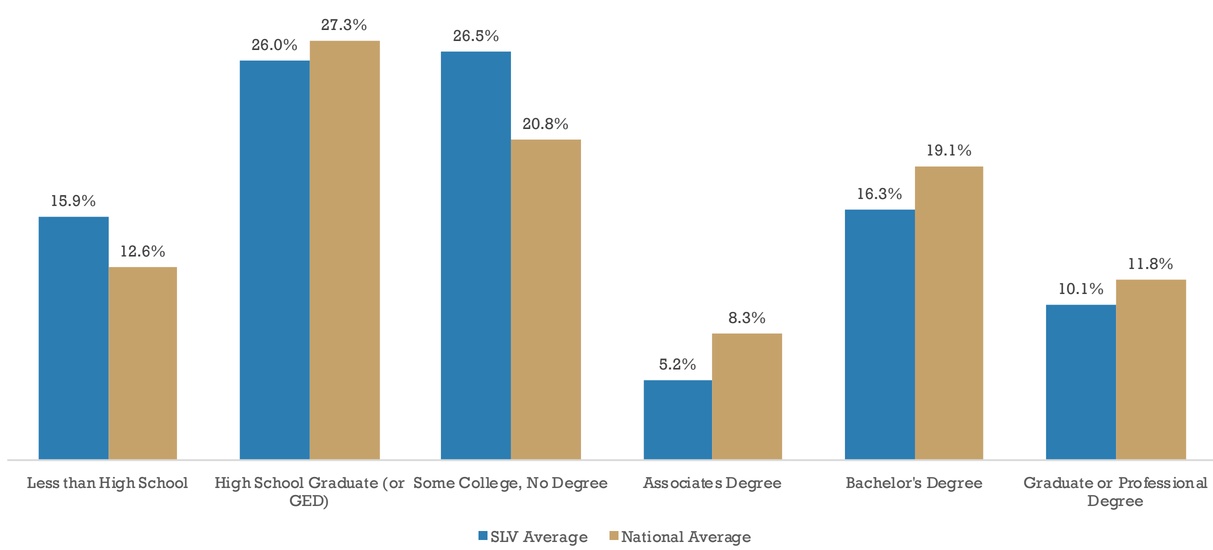


Source: Colorado State Demography Office

(1) Based on the population-weighted average across the six counties in the San Luis Valley

When looking at the younger demographic, educational attainment, which indicates the highest degree of education attained by individuals over 25 years old, can be an important indicator of economic growth and labor market outcomes. According to a study in *The Rocky Mountain Economist*,[2] high levels of education, on average, result in lower unemployment rates, higher labor force participation, and higher wages. Despite SLV having over 12,000 students enrolled across 14 separate school districts that encompass 38 schools covering grades K-12,[3] SLV's educational attainment is below the national average for almost all categories, particularly when comparing tertiary education. Despite having an extensive educational network that includes two tertiary institutions, Adams State University ("ASU") and Trinidad State Junior College ("TSJC"), 42% of individuals in the community over the age of 25 have not progressed their education beyond high school, and a further 27% of individuals have attended some college but not graduated. This trend looks likely to continue as student enrollment is declining, particularly at the high school and tertiary levels.

EDUCATIONAL ATTAINMENT, PEOPLE OVER 25 YEARS OLD, 2017



Source: US Census Bureau; 2013 – 2017 American Community Survey

Having a less educated population implies a less skilled workforce. This can force businesses already operating in the area to try to import talent to solve their staffing issues and creates a barrier for certain businesses thinking about establishing a presence in the valley if staffing is going to be a major concern. Nearly 30% of businesses surveyed in the valley said that finding people with the right education/qualifications is the biggest issue they have when finding and retaining employees. This was also supported anecdotally with numerous business owners and entrepreneurs we spoke with commenting that staffing was a big issue for their business, particularly qualified staff in areas such as nursing.

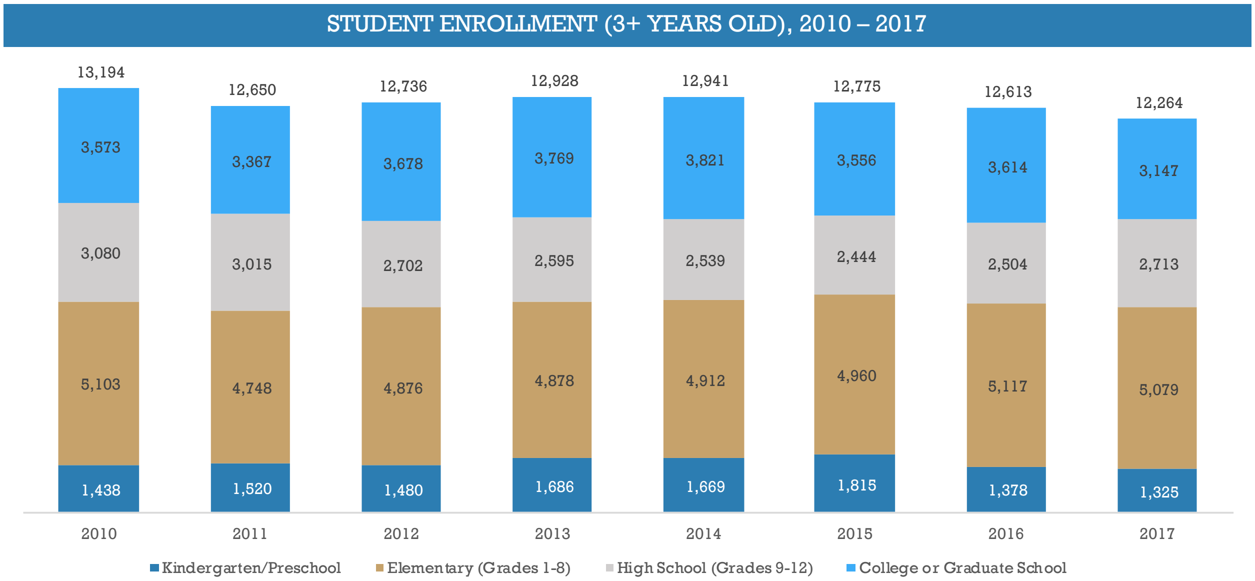
This is unlikely to change if the current trends in student enrollment continues. The total number of enrolled students across all grades from kindergarten through to graduate school declined at an average rate of 1.0% per annum from 2010 to 2017. Part of this can be explained by the decreasing proportion of the population made up by the 0 to 25 year old demographic, as highlighted in the previous section, but the most consistent drop is seen in the number of students enrolled college or graduate school. Student enrollment at ASU has been declining steadily since 2011, and 2018 enrollment was down 1% from 2017 due to an 8% drop in returning students.[4] Despite this trend, ASU continues to be a significant economic driver in SLV providing over $50m in direct spending in the region with an estimated total economic impact of $87m.[5]

[2] https://www.kansascityfed.org/publications/research/rme/articles/2018/rme-2q-2018.

[3] Source: US Census Bureau; 2013-2017 American Community Survey. National center for Education Statistics: CCD Public school district data for the 2016-2017, 2017-2018 school year.

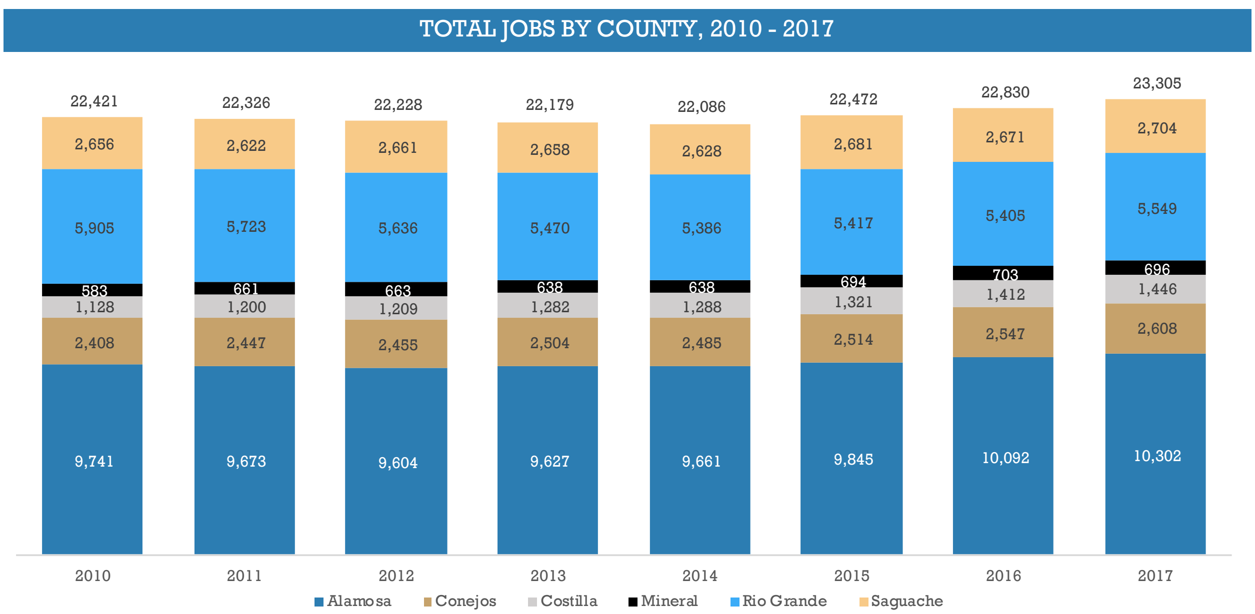
[4] https://www.adams.edu/news/asu-enrollment-growth/.

[5] San Luis Valley Development Resources Group; *2016 Colorado Planning & Management Region Report.*



Source: U.S. Census Bureau; 2013 – 2017 American Community Survey

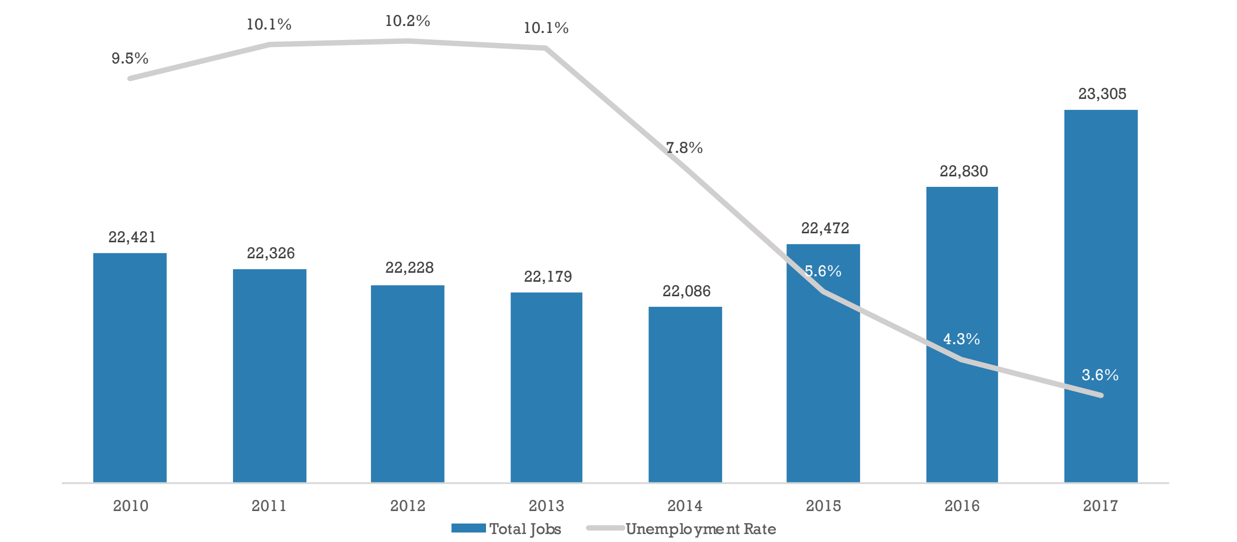
Despite the trends seen with student enrollments and educational attainment, the number of jobs in SLV has increased over the period from 2010 to 2017. Job growth was slightly negative from 2010 to 2014, but since then the number of jobs has been growing steadily at an average annual rate of 1.8%, adding a total of 1,219 jobs over the three years to 2017. Over half of these new jobs have been added in Alamosa county, further increasing the concentration of population in that area.



Source: Colorado State Demography Office; U.S. Bureau of Labor Statistics

This increase in the number of available jobs has historically had an impact on the rate of unemployment in SLV, which has fallen from a high of 10.2% in 2012 to a low of 3.6% in 2017.

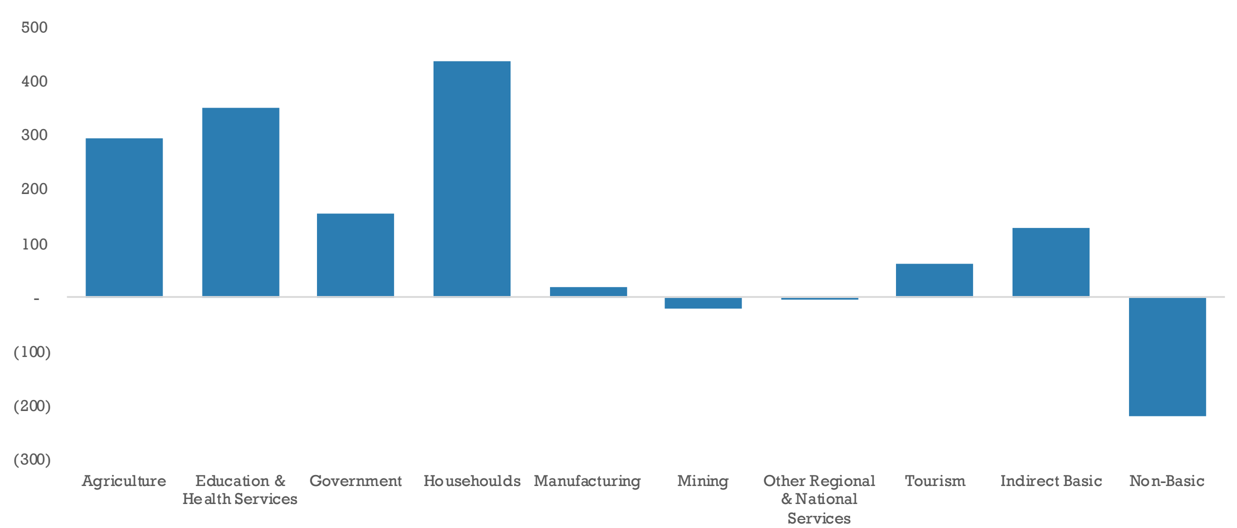
TOTAL JOBS + UNEMPLOYMENT RATE, 2010 - 2017



Source: Colorado State Demography Office; U.S. Bureau of Labor Statistics
Note: Unemployment Rate based on the average of all six counties in the San Luis Valley

The majority of these new jobs in SLV, approximately 55% in total, have been added across the government, agriculture, and education and health services base industries.[6] These include jobs in agricultural production, processing and inputs, federal and state government jobs (i.e. post office, military, and higher education), private education jobs, and health care service jobs.

CHANGE IN JOBS BY INDUSTRY, 2010 - 2017



Source: Colorado State Demography Office

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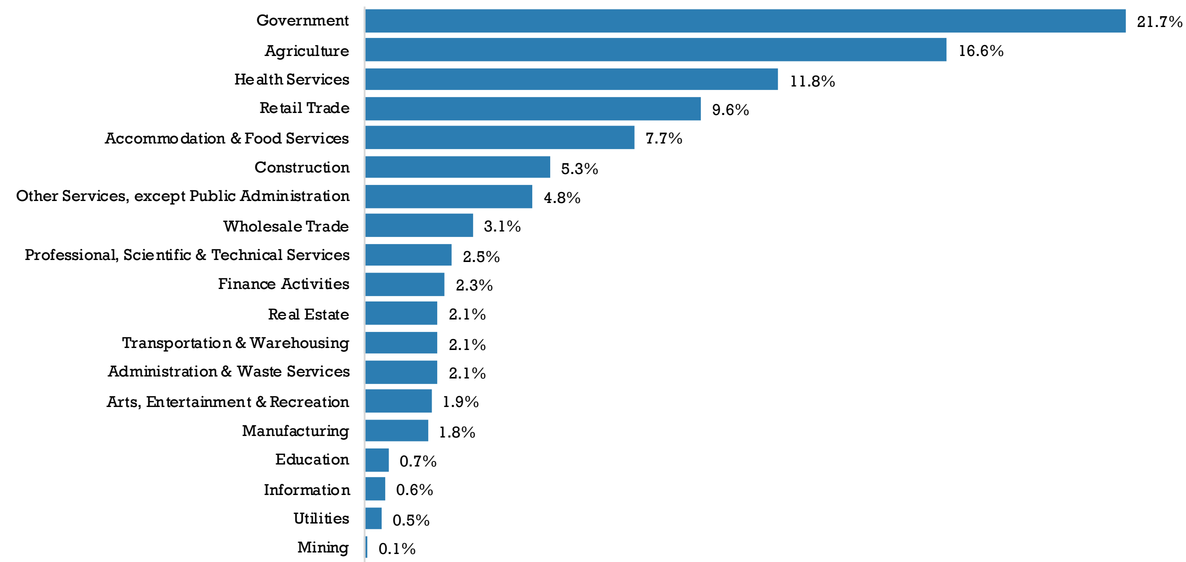
[6] Colorado State Demography Office, *Economic Base Analysis*. Each year, the Colorado State Demography Office conducts an 'Economic Base Analysis' to analyze the economic activities that bring outside dollars into a community, and the extent to which the spending from those dollars on local services create additional jobs. These jobs get broadly categorized as:

- *Direct Basic:* Includes jobs that bring outside dollars into the community by selling goods or services outside the county, such as agriculture (production, inputs and processing), manufacturing, or tourism;
- *Indirect Basic:* Includes jobs that are created as the result of goods and services purchased by direct basic such as accounting services or raw material inputs; and
- *Non-Basic:* Includes jobs that are supported when income earned from base industries is spent locally to purchase food, clothes, services (such as health care), and to pay taxes. This category includes jobs like retailers, lawyers, public school teachers, and police officers.

For more information on the various job classifications, visit https://demography.dola.colorado.gov/ and follow the links to the Economic Base Analysis under 'The Economy and Labor Force.'

This highlights the importance of the agriculture, government, and healthcare sectors to SLV's local economy. These industries represent approximately 50% of all jobs and economic output but typically pay less relative to other industries. Total annual gross domestic product for SLV is in excess of $1.4bn[7] with the agriculture sector alone worth nearly $400m a year, and government/government enterprises contributing approximately $270m per annum to the local economy. Tourism is also an important industry for the valley, bringing nearly $50m to the region annually and helping to support the local accommodation providers and retail trade.

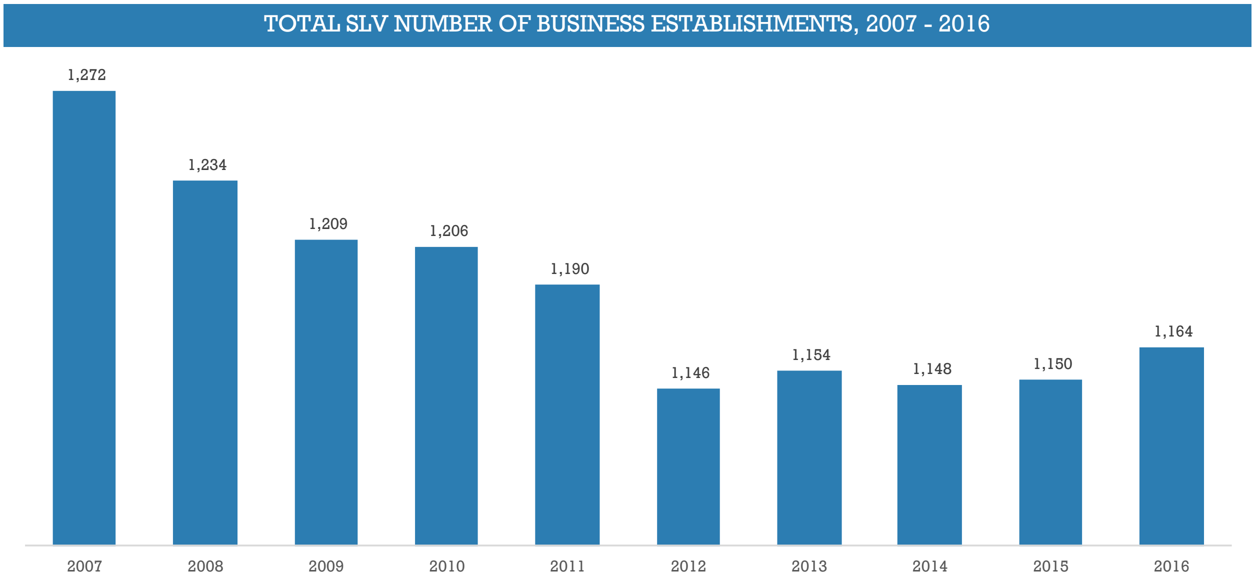
TOTAL JOBS BY INDUSTRY, 2017



Source: Colorado State Demography Office

These jobs are split over 1,164 business establishments[8] across the valley with the growth in jobs from 2013 to 2017 being reflected in the growth in business establishments over the same period. Since 2012, SLV has seen a net increase of 18 business establishments, equivalent to approximately 2%, according the U.S. census data following a period of decline in the wake of the 2008/09 financial crisis. The majority of change has been occurring in Alamosa and Rio Grande counties, which account for 70% of total business establishments in the valley; approximately 41% in Alamosa county and 29% in Rio Grande county.

[7] U.S. Bureau of Economic Analysis, *'GDP by County,'* 2015.
[8] An establishment is a single physical location at which business is conducted or services or industrial operations are performed. It is not necessarily identical with a company or enterprise, which may consist of one or more establishments. When two or more activities are carried on at a single location under a single ownership, all activities generally are grouped together as a single establishment.

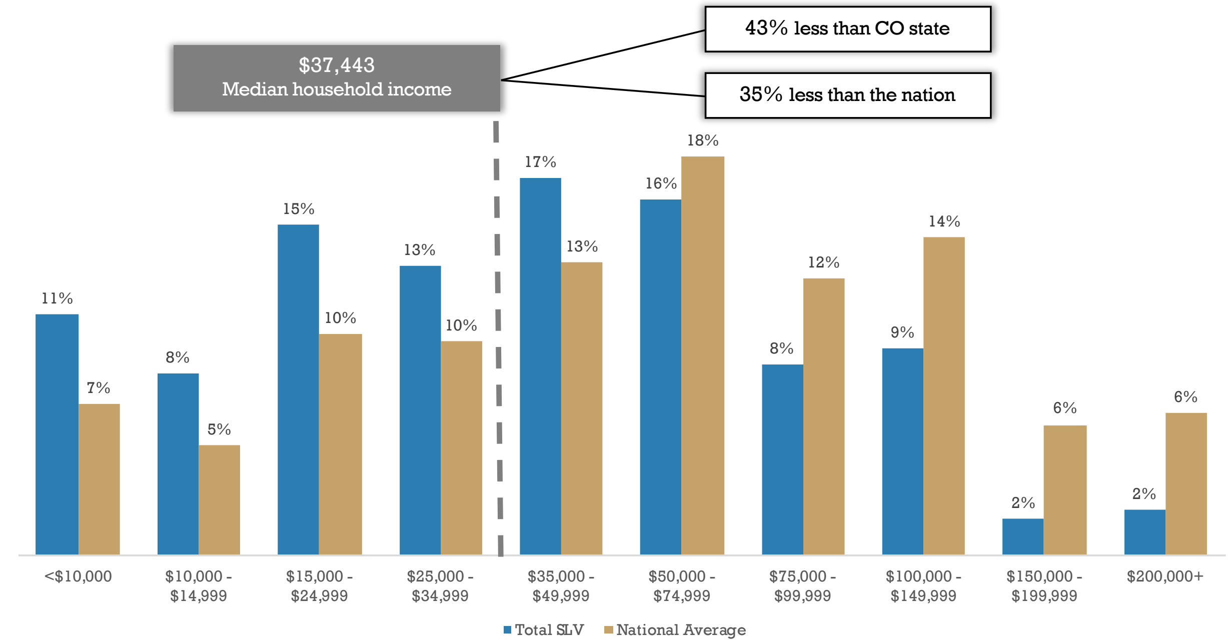


Source: U.S. Census Bureau

The size of SLV also gives rise to a slight misconception about the cost of living, with many believing it is cheaper than other areas. However, not having sufficient population to support competing businesses can result in higher prices for goods and services as businesses can charge any price they desire due to the lack of alternatives. Some residents even claimed it was cheaper for them to travel to Pueblo to visit the dentist because of this dynamic. The isolated nature of SLV also results in higher transportation costs for goods brought in to the valley, making some products more expensive than nearby metropolitan areas. For example, regular gas prices as at the end of March 2019 were averaging approximately $2.65 per gallon in Alamosa, roughly 8% higher than nearby Pueblo at approximately $2.45/gallon, and about 15% higher than Denver at approximately $2.30/gallon. The impact of these higher costs is amplified in an area like SLV given the relatively to household income.

The valley's heavy reliance on these relatively lower paying industries, and on retiree income from savings and federal government payments is a key reason why the median household income in SLV is 43% lower than the state average, and 35% lower than the national average at $37,44. This contributes to the high poverty rates and affordable housing issues experienced in SLV, and reduces the amount of discretionary expenditure for most households. This contributes to the difficulty of sustaining a business in SLV, especially those with local and online competitors, in addition to the issues brought about by the population concentration in Alamosa and Monte Vista.

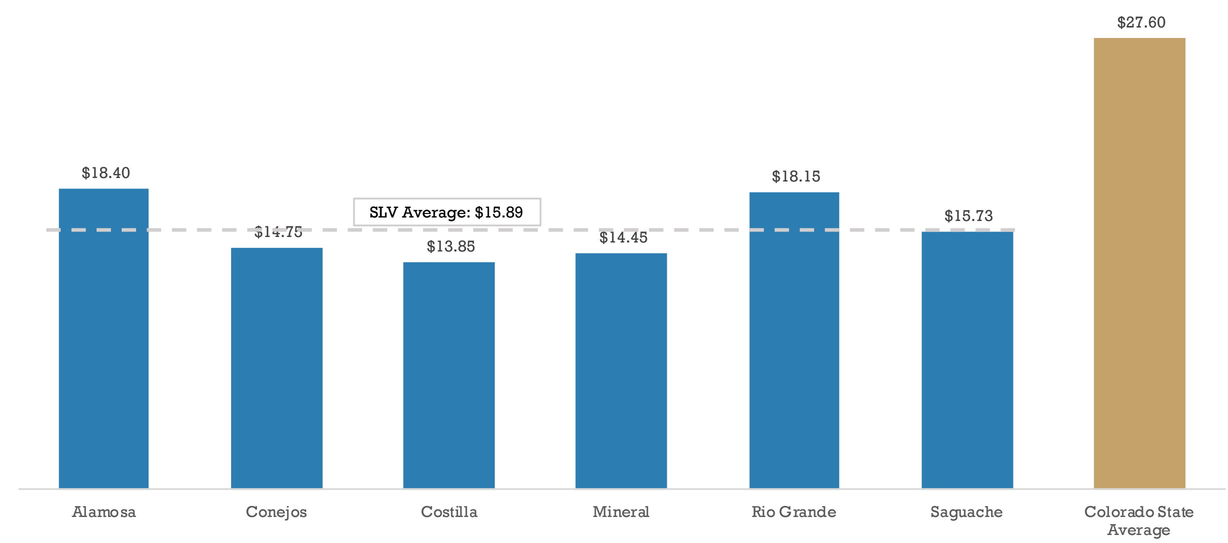
HOUSEHOLDS BY INCOME BRACKET, 2017



Source: U.S. Census Bureau; 2013-2017 American Community Survey

Furthermore, the average hourly wage across the six counties of $15.89 per hour is 42% below the state average. The average hourly wage ranges across the six counties from a low of $13.85 per hour in Costilla to a high of $18.40 per hour in Alamosa at an average hourly wage in the valley.

AVERAGE HOURLY WAGE BY COUNTY

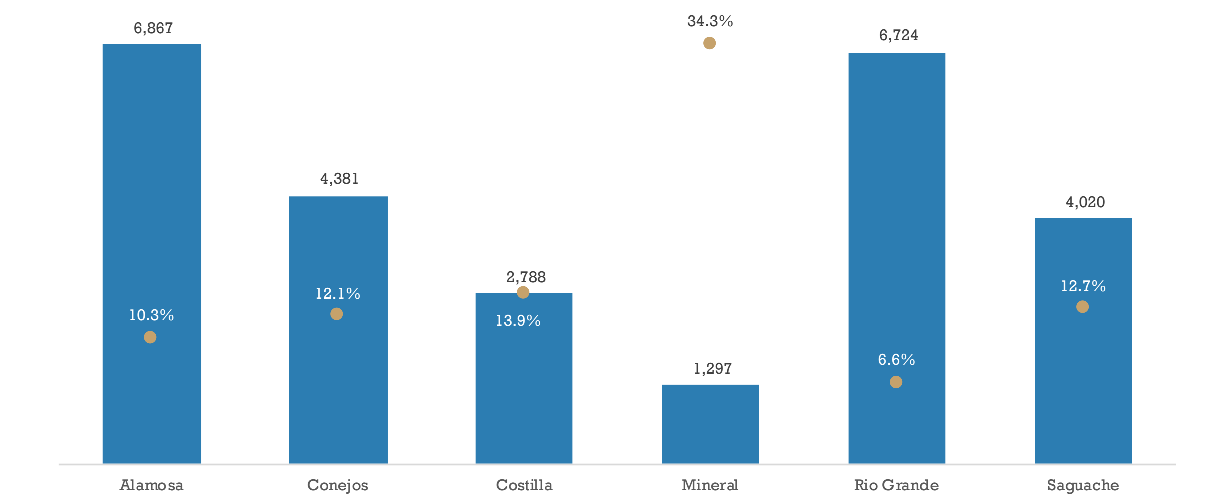


Source: Colorado Department of Labor and Employment
Note: Assumes a 40-hour work week year round

Lower median household income has implications for the rate of poverty in the area, and SLV population growth is forecast to outpace job growth which has implications for unemployment. These two trends also have broader implications for housing – especially housing affordability and a need for increased supply.

In 2017, there were a total of 26,077 housing units in SLV, with an average vacancy rate of approximately 15%, 4% in homeowner units and 11% in rental units. Mineral county has a particularly high vacancy rate due to the heavy tourism industry in the county, which results in a 34% vacancy rate. While the vacancy rates across the counties are higher than the state and national rates of 6% and 8% respectively, they still suggest a relatively tight real estate market with a small over supply of housing, especially with respect to homeowner units.

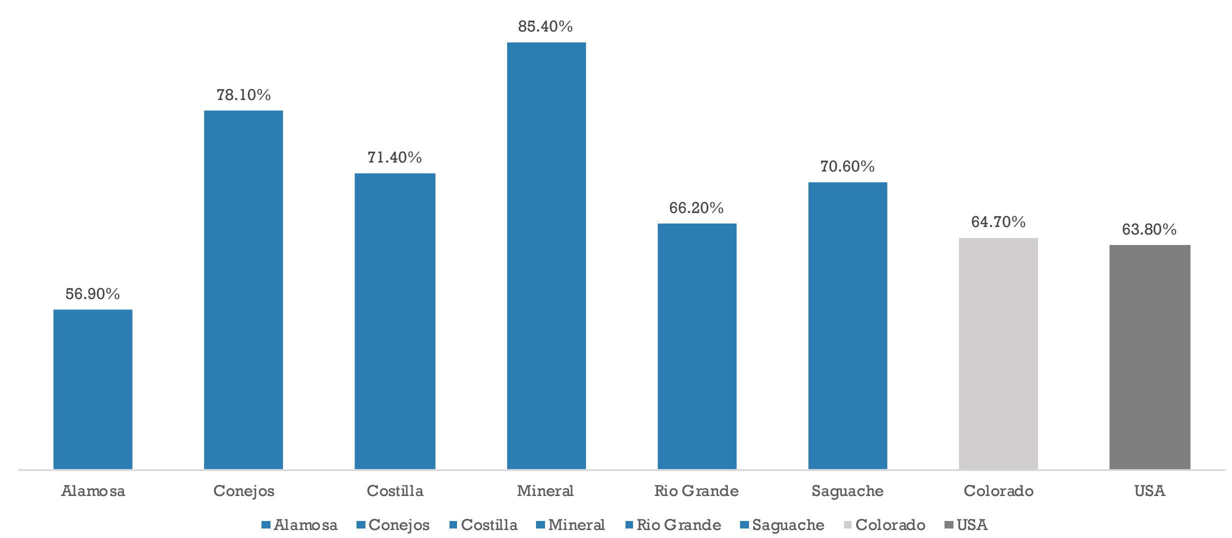
NUMBER OF HOUSING UNITS + VACANCY RATES, 2017



Source: U.S. Census Bureau; 2013 – 2017 American Community Survey

The majority of these housing units are owner-occupied, with an average home ownership rate of 71%, 7% higher than the state rate and 8% higher than the national rate, despite the higher cost of homes relative to household income.

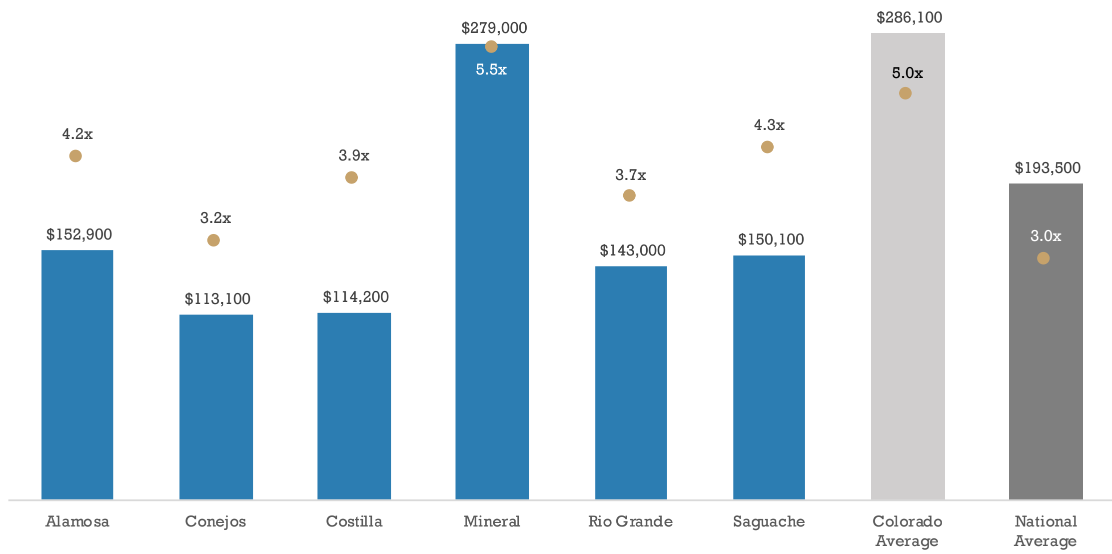
PROPORTION OF OWNER-OCCUPIED RESIDENCES, 2017



Source: U.S. Census Bureau; 2013 – 2017 American Community Survey

Although the average home value in SLV is $158,717, which is 45% below the state average and 18% below the national average, home values are approximately 4.2x median household income, which is significantly higher the national average of 3.0x.

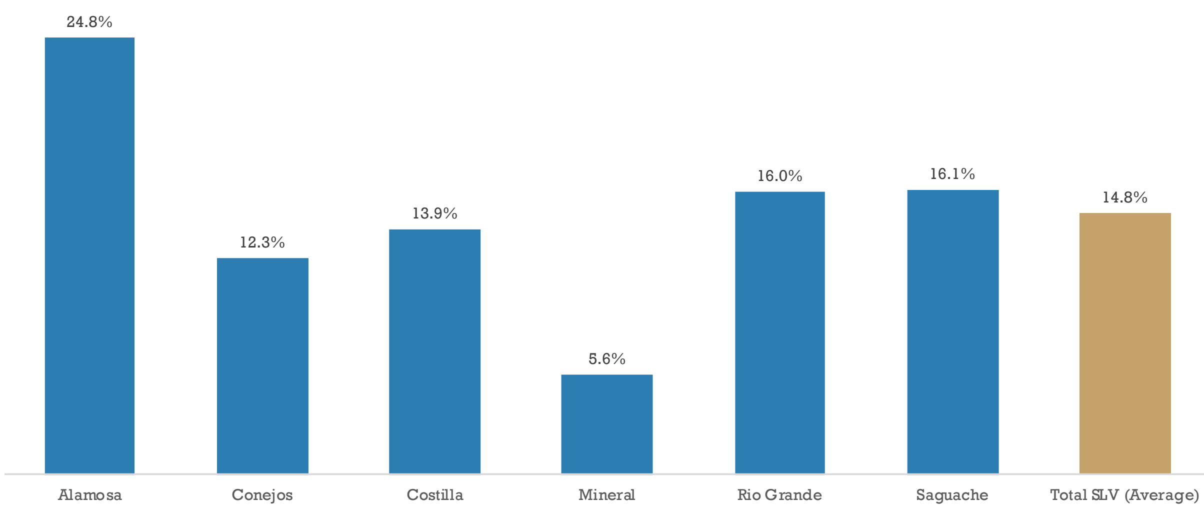
MEDIAN HOME VALUE AND MEDIAN HOME VALUE AS MULTIPLE OF MEDIAN HOUSEHOLD INCOME, 2017



Source: U.S. Census Bureau; 2013 – 2017 American Community Survey

As a result, approximately 15% of total households in SLV spend more than 35% of their income on housing costs, which includes payment for mortgages, rent, real estate taxes, insurances, utilities, fuels, mobile home costs, and condominium fees.

PROPORTION OF HOUSING UNITS WITH HOUSING COSTS >35% OF MEDIAN HOUSEHOLD INCOME, 2017



Source: U.S. Census Bureau; 2013 – 2017 American Community Survey

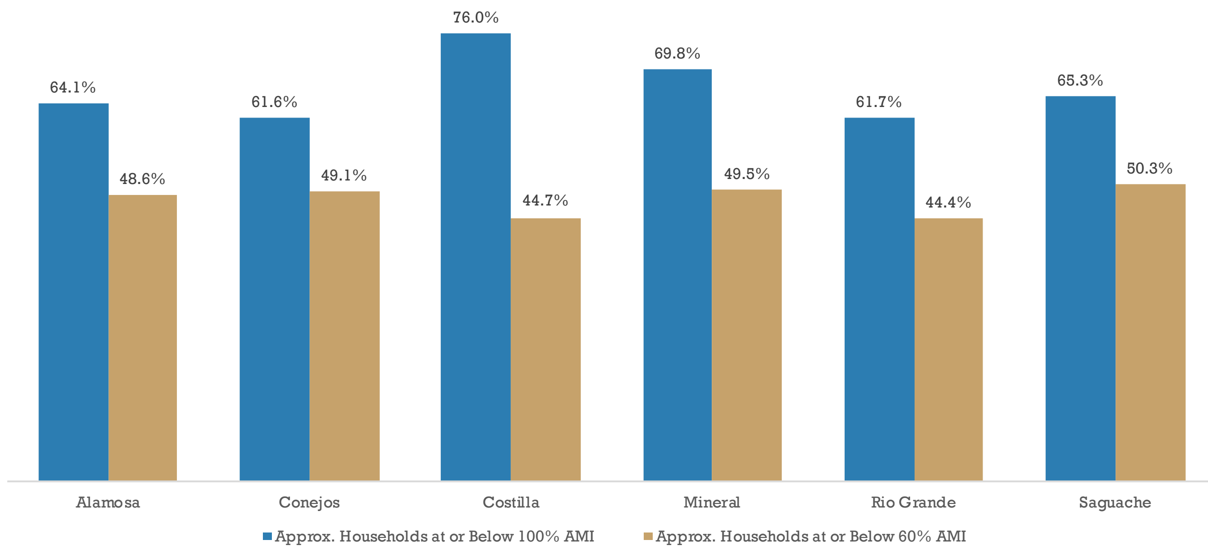
Housing costs that exceed 30% of household income have historically been viewed as an indicator of a housing affordability problem,[9] which is particularly the case for households in the lowest income brackets.

To analyze housing costs for the lowest income brackets, we have referenced the US Department of Housing and Urban Development ("HUD") Area Median Income ("AMI"). This is calculated for each county annually and is used by affordable housing providers to qualify households based on the percentage that their household income represents of the AMI. Subsidized rental housing is typically available for households at 60% or less of AMI, while homebuyer programs usually target households with incomes between 60% and 100% AMI.

[9] "Housing Affordability: Myth or Reality? " Wharton Real Estate Center Working Paper, Wharton Real Estate Center, University of Pennsylvania, 1992.

Approximately 66% of all households in SLV have a median household income at or below 100% AMI, equivalent to approximately 12,211 households, and roughly 48% of households have a median household income at or below 60% AMI, equivalent to approximately 8,787 households.

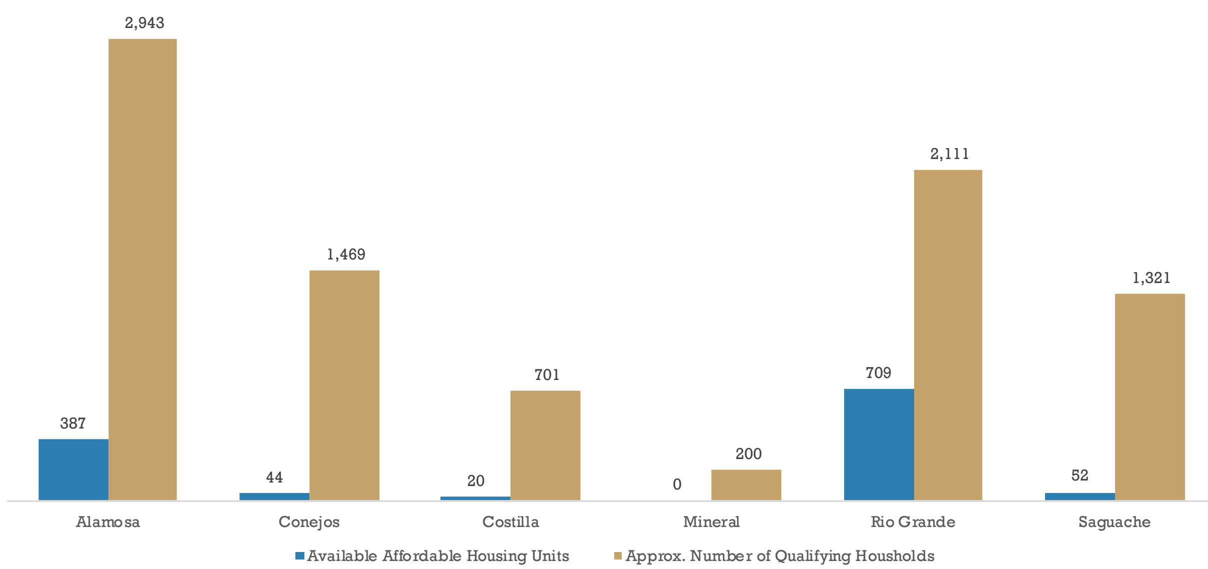
PROPORTION OF HOUSEHOLDS AT OR BELOW 100% AMI + 60% AMI, 2017



Source: U.S. Census Bureau; 2013 – 2017 American Community Survey; U.S. Department of Housing and Urban Development

These households currently have few options when it comes to affordable housing in the region. Comparing the number of households that might qualify for affordable housing (i.e. those with less than 60% AMI) to the number of affordable housing units available in the region shows a significant undersupply of approximately 7,575 units. This implies that approximately 86% of these households are faced with paying full market rates for their housing.

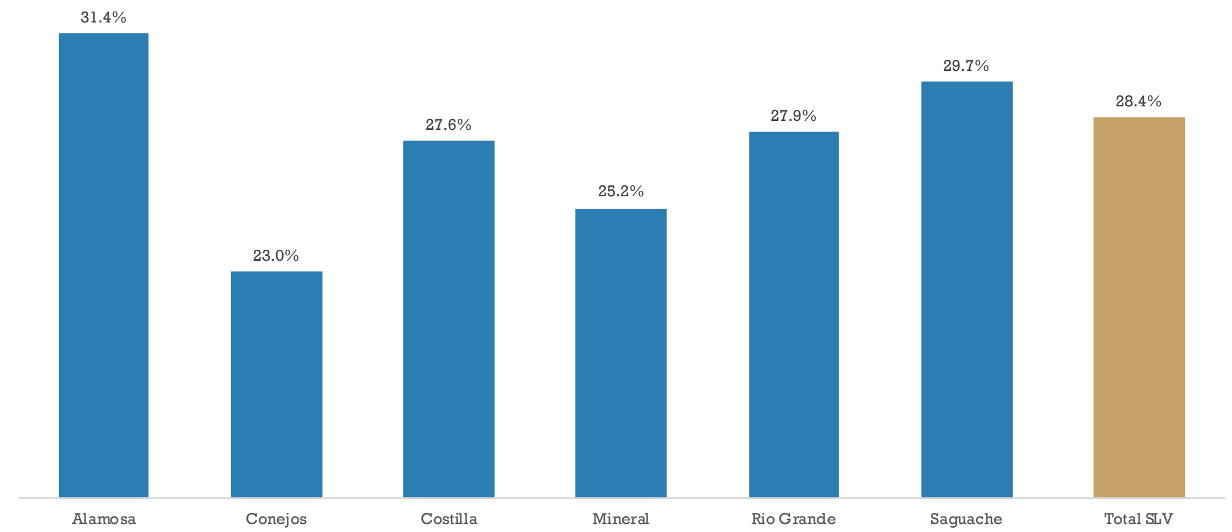
NUMBER OF AVAILABLE AFFORDABLE HOUSING UNITS VS. NUMBER OF QUALIFYING HOUSEHOLDS



Source: U.S. Census Bureau; 2013 – 2017 American Community Survey; U.S. Department of Housing and Urban Development; Affordable Housing Online
Note: A qualifying household is one with a median household income less than 60% AMI

As a result, housing costs as a percentage of income is significantly higher for this subset of households, with approximately 28% of them, equivalent to approximately 5,230 households, spending more than 30% of their income on housing costs, nearly double the rate when considering total households in the region.

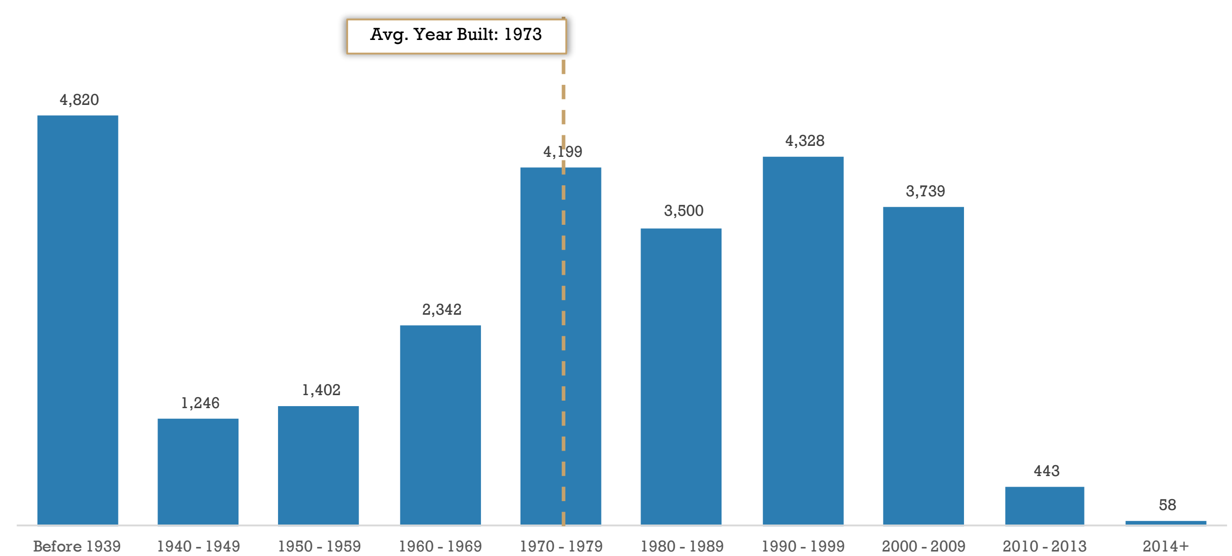
PROPORTION OF HOUSEHOLDS AT OR BELOW 100% AMI SPENDING >30% OF INCOME ON HOUSING COSTS, 2017



Source: U.S. Census Bureau; 2013 – 2017 American Community Survey; U.S. Department of Housing and Urban Development

Not only does SLV have a significant shortage of affordable housing, it also has an old housing stock. The average housing unit in SLV was constructed around 1973, while the average for the state is 1980. Approximately 19% of housing units were built before 1930, and just 1.9% of total housing units, or roughly 501 units, have been constructed since 2010.

TOTAL SLV HOUSING UNIT YEAR OF CONSTRUCTION, 2017

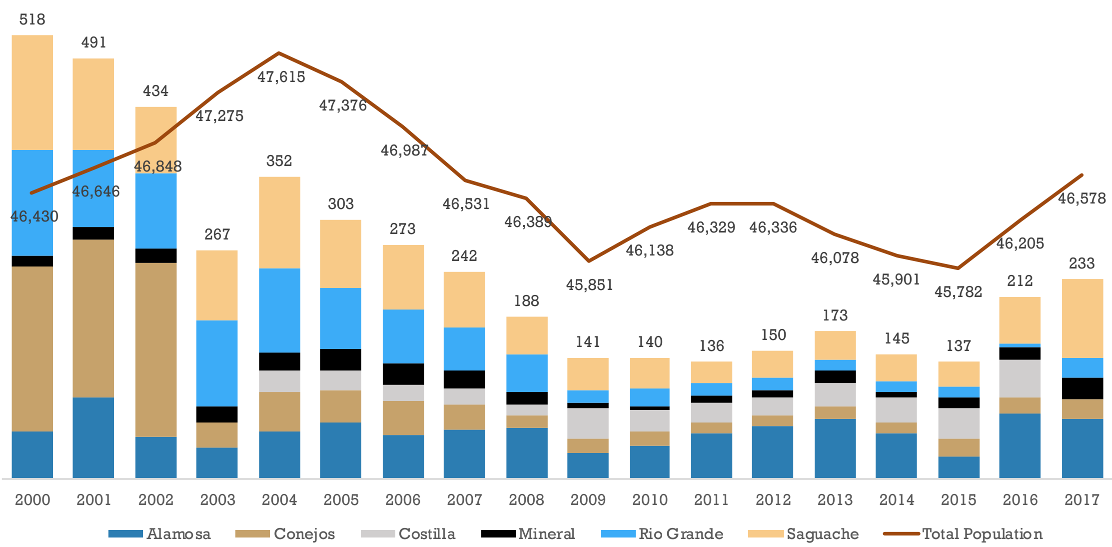


Source: U.S. Census Bureau; 2013 – 2017 American Community Survey

As shown in the chart below, the number of new housing units authorized by building permits broadly follows total population movements, with new construction generally slowing in periods of population decline and increasing in response to population increases. The chart also highlights the disconnect between housing units authorized, and housing units that are actually constructed, as depicted in the chart above.

Of the total housing units authorized from 2000 to 2009, 45% were authorized between 2000 and 2002 inclusive, and 40% of those were in Conejos county alone. However, since 2003, approximately 71% of new housing units permits have been authorized in Alamosa, Rio Grande, and Saguache counties.

NUMBER OF NEW HOUSING UNITS AUTHORIZED BY BUILDING PERMITS AND TOTAL POPULATION, 2000 - 2017



Source: U.S. Census Bureau; 2013 – 2017 American Community Survey; State Demography Office

STRATEGIC ADVANTAGES + ECONOMIC DRIVERS

Analyzing the unique characteristics of SLV highlights a few strategic advantages and economic drivers that present areas for potential investment. However, these aren't without their own barriers that need to be considered and addressed for SLV to see the full impact of investments in these areas.

SLV has a unique climate similar to that of a cool desert with arid warm days and cool nights. It is also one of the sunniest and driest places in Colorado with over 350 days of sunshine a year and average annual precipitation in the valley floor of just 7.6 inches. This presents a perfect growing environment for vegetables and makes agriculture one of the main economic drivers in SLV. Potatoes, barley, and alfalfa are the main crops grown in the region and there is also plenty of carrots, canola, and other crops such as lettuce and mushrooms, as well as a number of sheep and cattle farms. In total, the local agriculture industry is worth nearly $400m per annum[10] and is supported by senior water rights to the nation's second longest river, the Rio Grande River, which starts at the base of Canby Mountain in the San Juan mountains on the western side of the valley.

Potatoes are the predominant crop grown in SLV. The valley grows approximately 90% of Colorado's potatoes, and is the fourth largest potato growing region in the United States, accounting for c.20 million hundred weight in 2016, or about 4.5% of the country's total annual output.[11] During the 2018 season, some 52,000 acres of potatoes were planted. Once harvested, potatoes are sorted, sized, cleaned, and stored in local warehouses before being shipped out for delivery or further processing. In between potato crops, many growers will plant barley, wheat or quinoa as rotation crops every few years to help with weed and disease control. Alfalfa is the second most dominant crop in the valley based on income, with a lot of the high-quality hay sold to Texas and New Mexico as dairy feed. A lot of malt barley is also grown in SLV, which is the primary source of barley for Coors Brewing Company, and SLV also has the largest commercial grade mushroom production facility in Colorado, New Mexico, Nebraska, and Arizona, operated by Rakhra Mushrooms. The facility, located on the outskirts of Alamosa, grows white and brown mushrooms that are predominantly sold into the Denver, Albuquerque, and Salt Lake City markets. The company has stated it is looking to update all of its growing rooms to help increase production and lower growing costs over the next few years.

The agriculture industry relies on trucking and freight rail as the main modes of logistical transportation in and out of SLV. Trucking is predominantly used as it offers more flexibility and speed over rail, and the current freight rail lines in the valley are poor quality. Potatoes represent the largest shipments, with more than 100 truckloads leaving the valley each day. Although truck traffic is increasing year-round as different crops are harvested and shipped at various times throughout the year, the majority of trucks come in to the valley empty to pick up freight, representing an opportunity for local business to make use of this underutilized capacity. Despite the number of trucks coming and going from the valley, there isn't a full-scale truck stop with showers, parking, restrooms, and a restaurant along the US 160 highway, which is the major east-west route the truckers take, especially for long-haul cross-country deliveries. There are plans for a truck stop to be developed in the south of the valley near Antonito, but there is an opportunity to develop one along the US 160 outside of Alamosa or Monte Vista.

All crops grown in SLV rely on irrigation from surface or ground water, but water is becoming increasingly scarce in SLV, which is a big issue given the water intensity of predominant crops like potatoes and alfalfa. Surface water from the surrounding mountains snow melt has historically recharged underground aquifers in the valley but after years of drought, the aquifer levels have been in steady decline reducing the amount of irrigation water available to farmers. The valley is further restricted by an interstate compact to equitably apportion water from the Rio Grande River down-stream to Texas and New Mexico. In an effort to bring production in line with water supply, SLV has created subdistricts whereby they charge farmers per acre-foot of groundwater they pump, and then pay farmers to fallow parts of their irrigated land to help reduce water usage. This program has had limited success, with the largest sub-district at risk of having its wells turned off as early as next year and

[10] National Agricultural Statistics Service, *2012 Census of Agriculture – County Data; Market Value of Agricultural Products Sold Including Direct Sales.*
[11] National Agricultural Statistics Service, *Agricultural Statistics 2017.*

water is still in short supply. The reduction in pumping has also had a negative impact on local utility companies as the water pumps are major electricity users so demand has been down quite considerably.

The scarcity of water is forcing farmers to consider more water efficient growing alternatives, especially for rotation crops like alfalfa. Hemp is one of those alternatives with studies suggesting it uses up to 30% less water than crops like alfalfa[12] and can be much more profitable. The 2018 Farm Bill federally legalized hemp provided it contains less than 0.3% THC, the compound in marijuana that gives the high. THC serves a protective function for the plant and stressing the plant with things like limited water and cold temperatures can increase THC potency in the plant. With SLV's climate and abundant sunshine, hemp plants that don't produce more than 0.3% THC in the valley are unlikely to do so elsewhere in the country, making SLV a unique and attractive place for hemp production. Already this year there could be as much as 10,000 acres of hemp planted, both for industrial use (hemp seed, protein powder, paper, textiles, etc.), and for cannabidiol (CBD) which is used in multiple therapeutic products for chronic pain, anxiety, inflammation, etc. Hemp grown for CBD in particular can be very lucrative for farmers in the current market. This increased interest in hemp production provides several opportunities for investment as that market grows and matures, including processing facilities, oil extraction facilities, and even manufacturers of hemp harvesting and processing equipment.

SLV is not just a major agricultural center though. Its unique climate also provides ideal conditions for renewable energy generation, particularly solar. With an average of 350 days of sunshine a year, high elevation, and minimal precipitation in the valley floor, SLV has the highest quality solar resource in Colorado, and one of the best in the country. In 2007, SunEdison built the first utility scale solar photovoltaic plant in the valley, just north of Alamosa, and since then several other projects have been developed with total capacity in excess of 130MW. There are also several smaller installations for specific commercial sites or private use, such as at the wastewater treatment facility and Alamosa high school. In 2012, several Solar Energy Zones were designated in the valley under Obama's Climate Action Plan, but to date no projects have been developed under this program. Solar power generation capacity is likely to be of increasing importance in Colorado over the coming years as from 2020 onward the state's renewable energy standards will require co-operative electric associations providing service to less than 100,000 meters, and each municipally-owned utility, to have 10% of their retail electricity sales be generated from renewable energy resources.

While SLV also has extensive geothermal resources, they are predominantly low-grade resources at temperatures below 200F at depths up to 5,000 feet which are suitable for current uses (hot springs, space heating, and aquaculture), but are not hot enough for electrical production. Biomass and biofuel facilities have also long been discussed and considered in SLV given the abundance of agricultural waste that can be used as a fuel source. Costilla County, in partnership with the local economic development group, currently runs a small bio diesel operation using locally grown canola and sunflower seeds to produced clean burning, renewable biodiesel fuel, with high protein livestock feed as a by-product. There are a couple of new development projects being considered by various stakeholders, which are touched on in the Investment Pipeline later in the document. Despite this potential to develop renewable energy projects in SLV, there are two potentially limiting factors. Local co-operatives have a PPA in place with Tri-State that requires 95% of their electricity to be purchased from Tri-State, making it difficult for them to pursue local renewable projects or even purchase substantial electricity from independent projects. In addition to this, there are limited transmission lines in the area. Two new high-voltage transmission lines from Alamosa east over La Veta Pass to Walsenburg and south from Antonito to New Mexico have previously been proposed, which would facilitate the development of large-scale electricity (specifically, solar) projects in the valley, but faced significant opposition and have not progressed.

Ancillary to agriculture and renewable energy, the high altitude, variable terrain, plentiful sunshine, and 8,000+ square miles of the valley also make it a great location of unmanned aerial test flights. The area has airspace clearance up to 15,000 ft., allowing for high-altitude flying, and a certificate of authorization that allows the

[12] Montana State University, *Irrigating Alfalfa: Some Guidelines,* http://waterquality.montana.edu/farm-ranch/irrigation/alfalfa/guidelines.html; Hemp Industry Daily, *Myth-busting: Hemp needs more water than many think*, https://hempindustrydaily.com/myth-busting-hemp-needs-more-water-than-many-think/; Hemp Husbandry, https://www.hempbasics.com/hhusb/hh2cul.htm.

operation of unmanned aircraft systems ("UAS") that weigh more than 55 lbs (the current restriction for commercial UAS use), as well as chase operations. Two airfields are currently approved for UAS operations: Saguache Municipal Airport in the northern part of the valley, and Leach Airport close to the center of the valley, but these facilities are being underutilized. This presents a possible opportunity for growth and investment given the large amount of agriculture in the area and the rising interest in, and adoption of, precision agriculture farming techniques that use UAS/drone technology.

SLV's location also attracts thousands of tourists year-round. Being conveniently located approximately midway between Denver, Colorado and Albuquerque, New Mexico and surrounded by the Sangre de Cristo Mountains and the San Juan Mountains, SLV is an accessible destination that offers a wealth of outdoor recreation activities and places to visit. This growing industry contributed approximately $48m to the local economy in 2017 through direct traveler spending and local tax revenue.

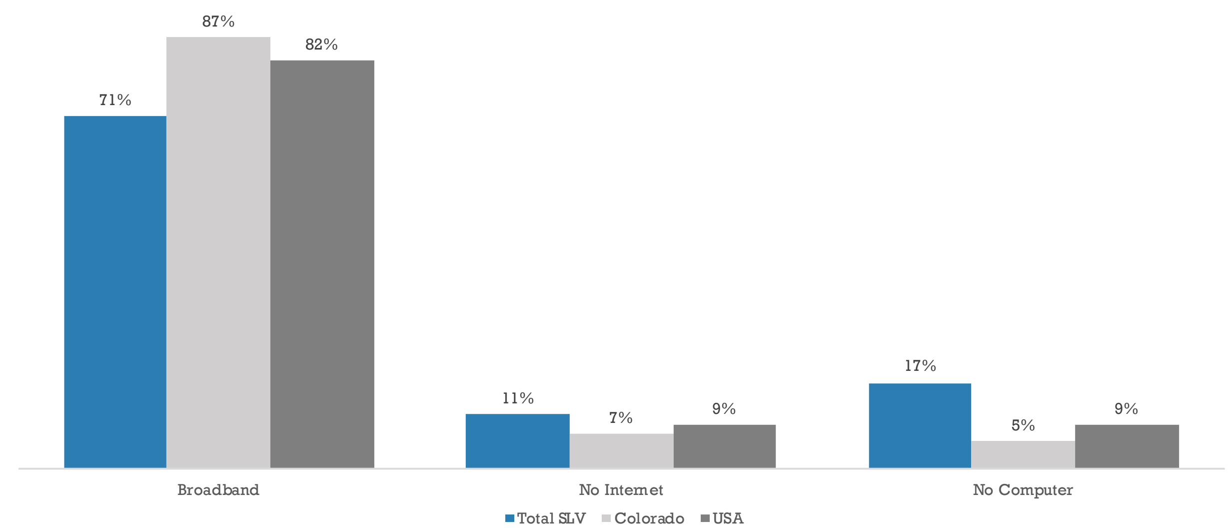
One of the main attractions is the Great Sand Dune National Park, home to the tallest sand dunes in North America. According to a National Park Service report from 2018, the park attracts approximately 487,000 visitors who spend an estimated $30m in the surrounding communities, having a significant impact on the local economy and supporting local restaurants, lodging establishments, and retail shops. Outdoor recreation is the other major, and growing, attraction in the area. There are numerous activities available in the valley, including over 500 miles of hiking trails, over 2,500 miles of motorized roads and trails for 4x4 off-roading, and the Wolf Creek Ski Area. The U.S. Forest Service recently approved construction of a public access road to private property at the base of Wolf Creek Ski Area where a private developer, Texas-based Leavell-McCombs Joint Venture, plans to build approximately 2,000 housing units, and multiple stores and restaurants. Not only is this expected to increase the number of visitors to the area, especially during winter months, but it will also require a significant amount of upfront construction, as well as a number of ongoing employees who may look to the nearby towns of South Fork and Del Norte (approximately a 20 – 40 minute drive from the ski area) for housing. A lot of these outdoor activities are supported by Kristi Mountain Sports, which is the premier local outdoor store for new gear, maintenance, and rentals, located in Alamosa.

Other key tourist attractions in the area include:

- The Rio Grande Scenic Railroad, a heritage railway operating both steam and diesel locomotives along a scenic passenger route over the La Veta Pass. The train runs from May through October, during which time they also host a range of unique events only accessible by train, such as the Rails & Ales Brewfest, and multiple music concerts;
- Cumbres & Toltec Scenic Railroad, a National Historic Landmark railroad with trains running from May through October that depart daily from Chama, New Mexico and Antonito, Colorado. The six-and-a-half-hour journey takes passengers over the Cumbres Pass, the highest mountain pass reached by rail in the United States, crossing the Colorado/New Mexico borders 11 times. There are also several special trains throughout the season, including evening departures with live entertainment and dinner, and themed rides focusing on topics like wildflowers and geology;
- The Creede Repertory Theatre, the oldest repertory theatre in Colorado with more than 50,000 visitors a year best known for its summer productions;
- The Colorado Gators Reptile Park, which includes alligator feeding, a bird sanctuary, a working tilapia fish farm, and other reptiles and attractions focused on reptile rescue and education; and
- Multiple indoor and outdoor natural hot springs supplied from the abundant geothermal resources in the valley. Several hot springs also offer various lodging options such as cabins, RV sites, and camp sites, which can book out up to a year in advance.

While SLV's location has many positives, its size and sparsity give rise to a few challenges. One key challenge is inconsistent access to quality broadband internet, which is integral to supporting modern business, education, healthcare, and providing an improved quality of life. Several studies highlighted in the San Luis Valley Regional Broadband Strategic Plan show how increased broadband penetration can increase employment rates and economic growth. [13] The report also noted that availability to broadband services is unequal throughout SLV, with several areas having no service while others have a choice between multiple providers. For example, only 12% of residents in Alamosa county have fiber optic internet connections and 2,000 people in the county don't have access to wired internet at all. As a result, only 71% of households in SLV have internet connections, 16% below the state and 11% below the nation, and just over one third of businesses surveyed said internet connectivity was an issue for their business.

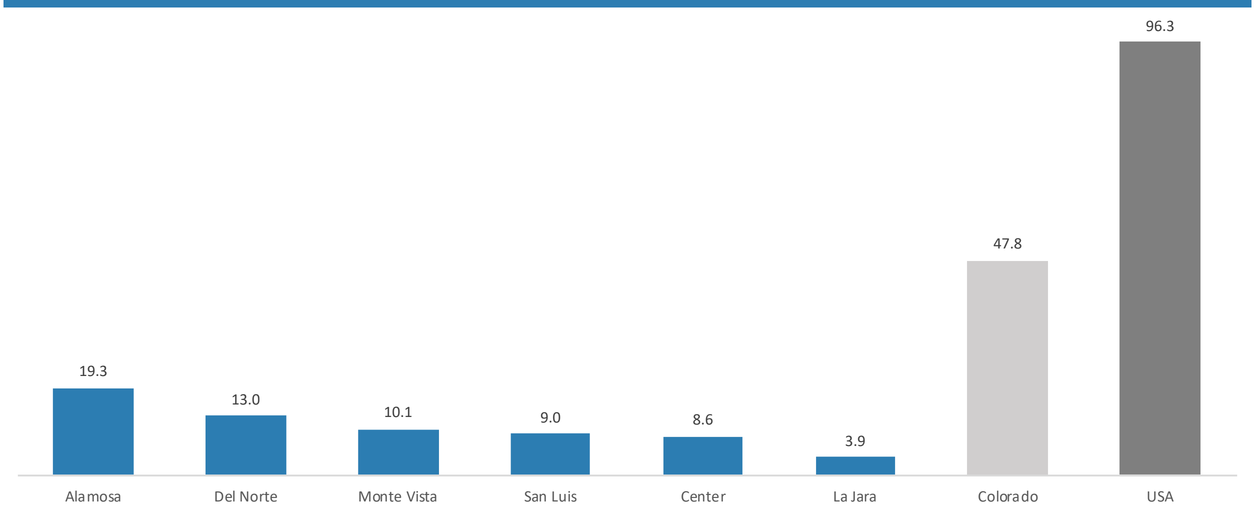
PROPORTION OF HOUSEHOLDS WITH INTERNET SUBSCRIPTIONS, 2017



Source: US Census Bureau; 2013 – 2017 American Community Survey

Not only is adequate coverage an issue, but so is the quality of internet service. Average download speeds across some of the bigger towns and cities in SLV are roughly 78% slower than the state average and 89% slower than the national average.

AVERAGE DOWNLOAD SPEED (Mbps)



Source: BROADBANDNOW; broadbandnow.com

There is real opportunity to improve the coverage and quality of broadband internet services in SLV to help support economic development and growth. Some local internet providers are already growing their fiber networks and offering much higher download speeds. The San Luis Valley Rural Electric Cooperative, which

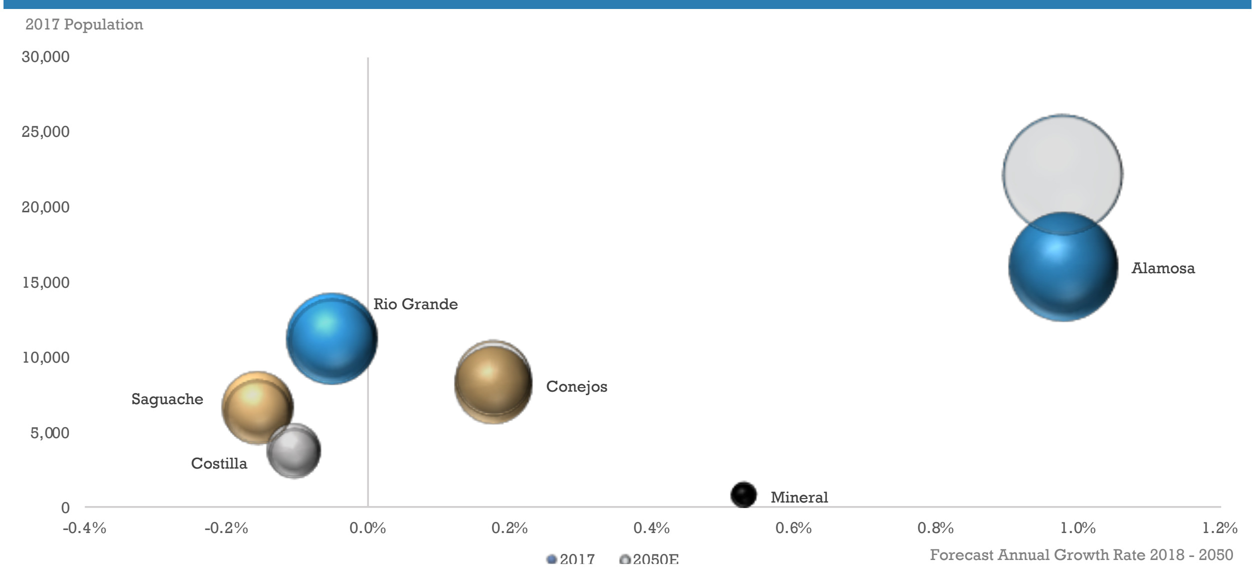
[13] "San Luis Valley Regional Broadband Strategic Plan," Ver. 1: 7 May 2017, pages 20-21.

offers fiber internet services under the brand Ciello, has plans to roll out fiber to the premise services to the best part of the entire valley, and Jade Communications, an Alamosa based internet, phone, and TV service provider, continues to grow its fiber coverage around the City of Alamosa and the southern parts of the valley. Outside equity investment could potentially expedite this rollout process but rural broadband development in an area like SLV is capital and time intensive so businesses should be strategic about where they target first. The obvious locations are those with the highest population and density.

As highlighted in the previous section, 59% of the population concentrated in Alamosa and Rio Grande counties and nearly 20% of the entire population is based in the City of Alamosa, with a further 9% in the City of Monte Vista. These are the largest cities in the valley and the only real areas of significant population density. This population concentration has drawn businesses to these two cities as many other areas in the valley lack sufficient population density to sustain the more traditional brick and mortar businesses typically seen in SLV, let alone multiple competing businesses. Approximately 80% of local businesses surveyed stated that they would either like to see more competition locally but that the market couldn't sustain it, or that they already have enough competition locally. This is highlighted by big box retailers who have opened stores in the region, with many locating in Alamosa or Monte Vista, for example, Starbucks and Walmart. These big chains can jeopardize the financial viability of smaller local establishments as they entice their customers away by being able to offer more choice and cheaper products. This has already resulted in some local businesses closing and with fewer options, residents travel half an hour or more to shop at these big box retail locations with some even travelling a few hours to Pueblo and Colorado Springs to go shopping due to the lack of options locally.

The concentration of people and business in Alamosa and Monte Vista is a trend that looks set to continue, and potentially intensify, as the majority of forecast population growth from 2018 to 2050 is expected in Alamosa County. The total SLV population is forecast to grow at a relatively slow rate of 0.4% per annum, resulting in an increase of 6,071 people over the period, while Alamosa County is forecast to grow at an annual average rate of 1.0%, adding an anticipated 6,077 people just to that county alone. Conejos and Mineral counties are the only other counties forecast to grow (0.2% and 0.5% per annum respectively), while the other three counties are actually expected to see a decline in population.

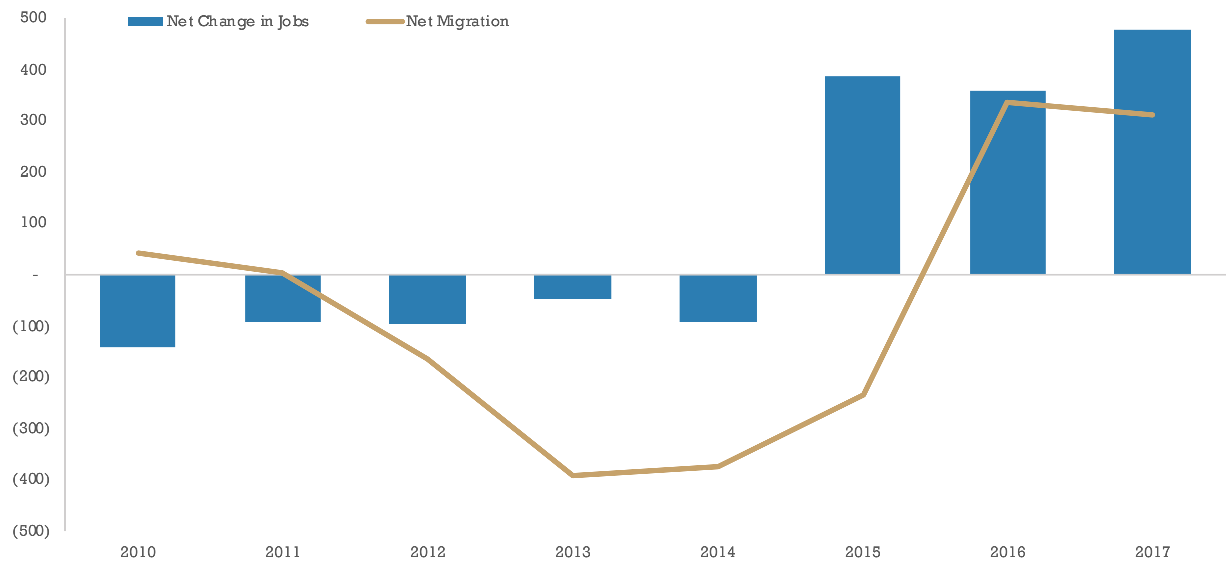
FORECAST POPULATION GROWTH BY COUNTY, 2018E – 2050E



Source: Colorado State Demography Office

Having businesses and people concentrate in the same areas is not a surprising phenomenon given the correlation between job and population growth. Over the period from 2010 to 2017 the total SLV population exhibited a correlation coefficient of 0.6 to the number of jobs, suggesting the health of the economy, and therefore the number of jobs, drives a substantial proportion of population growth. This also helps to explain the low population growth experienced in SLV over recent years, which has largely been due to negative net migration from 2011 to 2015 as the number of jobs in the valley steadily declined. Since jobs started to return to the valley from 2015, there has been a steady increase in population.

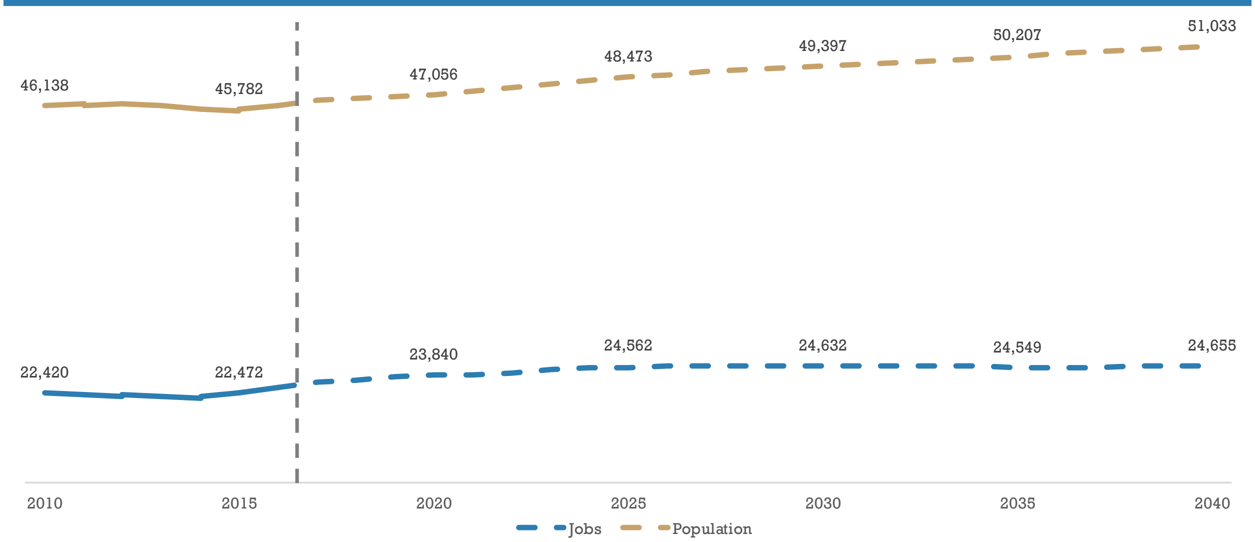
NET MIGRATION + NET CHANGE IN JOBS, 2010 - 2017



Source: Colorado State Demography Office

This relationship is actually forecast to strengthen over time with the correlation between job and population growth forecast to be 0.8 over the period from 2018 to 2040. The SLV population is forecast to grow at an average annual rate of 0.4% from 2017 to 2040 while jobs are forecast to grow at an annual rate of 0.2% over the same period.

TOTAL JOB + POPULATION GROWTH, 2010 – 2040E

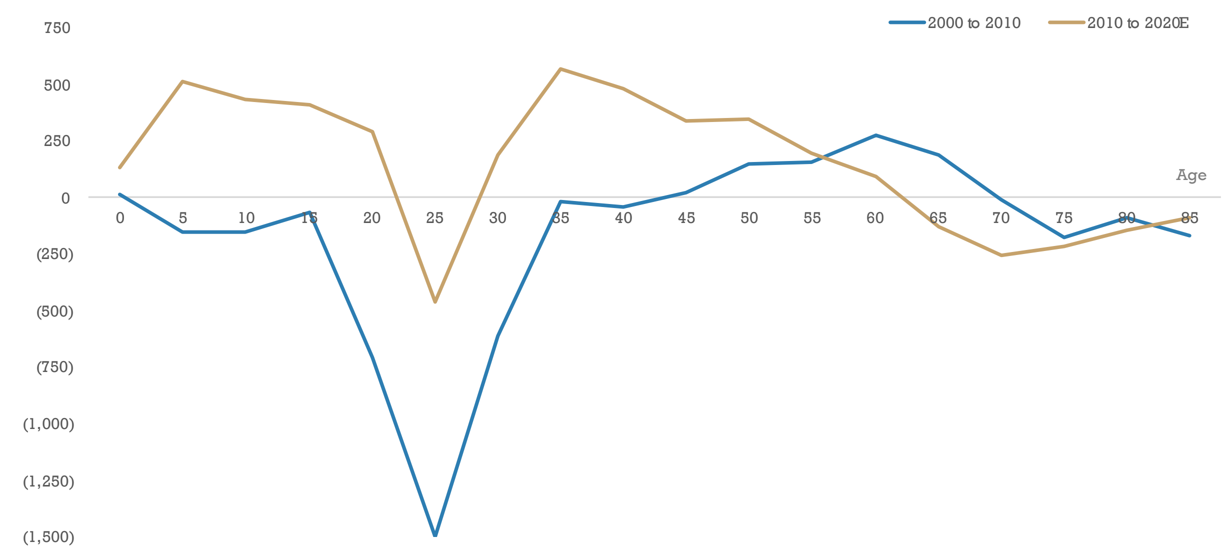


Source: Colorado State Demography Office

While job growth can explain some of the expected movement in population, the forecasts indicate a divergence over time as the population is forecast to grow at approximately double the rate of jobs. A growing population will increase demand for housing, and it may have other impacts on the local economy depending on the demographic composition of the new people moving to the area.

Historically, the valley has experienced significant negative net migration across the 15 to 35 year old demographic, with positive net migration in the older 50 to 70 year old demographic, which has been increasing the median age and increasing the proportion of the population over the age of 60. This pattern is largely forecast to continue, which will have implications for the future demand of particular goods and services.

TOTAL SLV NET MIGRATION BY AGE, 2000 – 2020E

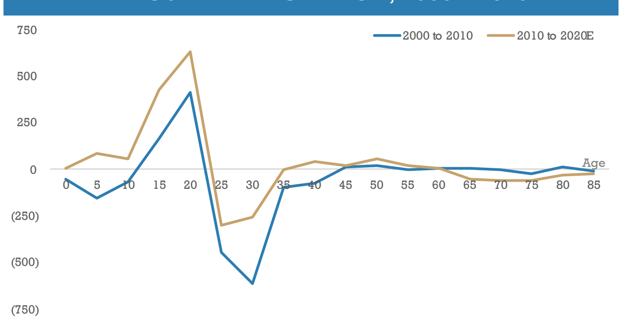


Source: Colorado State Demography Office

Examining net migration by county shows that the majority of the historic 15 to 25 year old negative net migration has been in Conejos and Rio Grande counties, and this has been moderately offset by the influx of 15 to 20 year old's in Alamosa county. This dynamic is most likely explained by the two tertiary institutions in SLV, ASU and TSJC being located in Alamosa. However, this also explains the negative net migration in the 20 to 30 year old demographic in Alamosa as graduates move home (more than 80% of ASU graduates are from outside SLV) or they relocate out of SLV for employment due to the lack of opportunities locally. This is the result of there being a lot more graduates each year than there are job openings, but it is also due to the graduate's specializations. The majority of the 2,700+ ASU graduates major in counselling psychology, business, teacher education, liberal arts and sciences, or kinesiology and exercise science,[14] which are areas with limited opportunities in SLV.

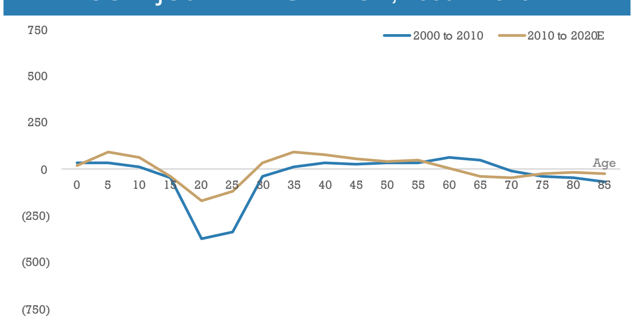
Despite these anomalies with the younger demographics, all six counties have historically seen positive net migration in the 50 to 70 year old demographic, which is most prevalent in Costilla, Mineral and Saguache counties and has been driving the aging of the population as highlighted in the previous section.

ALAMOSA NET MIGRATION, 2000 – 2020E



Source: Colorado State Demography Office

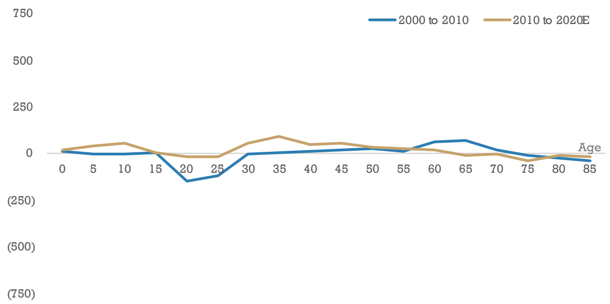
CONEJOS NET MIGRATION, 2000 – 2020E



Source: Colorado State Demography Office

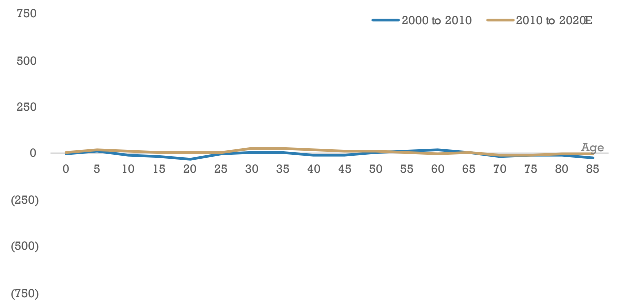
[14] Adams State University.

COSTILLA NET MIGRATION, 2000 – 2020E



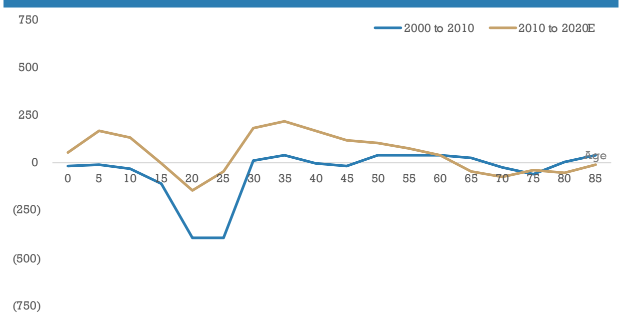
Source: Colorado State Demography Office

MINERAL NET MIGRATION, 2000 – 2020E



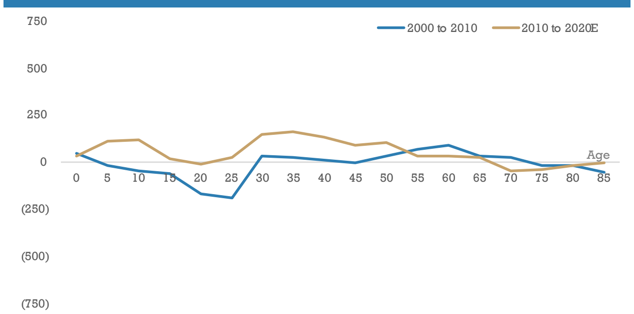
Source: Colorado State Demography Office

RIO GRANDE NET MIGRATION, 2000 – 2020E



Source: Colorado State Demography Office

SAGUACHE NET MIGRATION, 2000 – 2020E

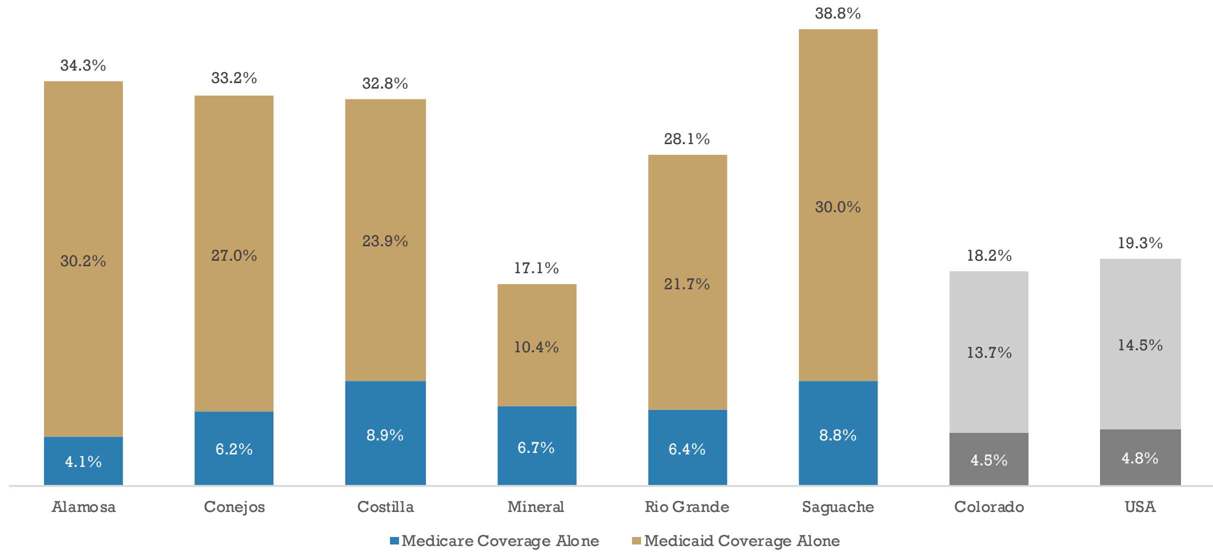


Source: Colorado State Demography Office

These migration trends will continue to increase the proportion of the population over the age of 60. As many of these people are retirees, SLV can expect to see lower labor force participation as well as different spending and consumption habits as they have an increased reliance on savings, social security, and pension payments. This will probably have the biggest impact on local healthcare providers, from hospitals and urgent care facilities through to aged care and assisted living, who collectively are largest employer in the region with over 1,000 total employees.

SLV already has a relatively high rate of residents with no health insurance due to low median income levels and high rates of poverty with many relying on Medicaid or Medicare to cover their health care costs. As a result, local providers have a heavy reliance on federal healthcare funding and are exposed to individual payors without coverage who can't pay their bills. Medicare pays for medical care for those over 65, and also covers many people under 65 who receive Social Security or railroad retirement benefits based on long-term disability. Medicaid provides medical assistance to families in need with dependent children, and to aged, blind, or permanently and totally disabled individuals whose incomes and resources are insufficient to meet the costs of necessary medical services. As the chart below highlights, SLV's reliance on these federally funded programs is nearly double that of the state and national averages, with approximately 31% of the SLV population relying on one of these programs to pay for their health care compared to approximately 19% at the state and national level.

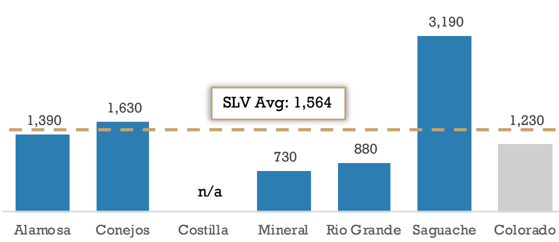
PROPORTION OF POPULATION WITH MEDICARE AND MEDICAID COVERAGE ALONE



Source: US Census Bureau; 2013 – 2017 American Community Survey

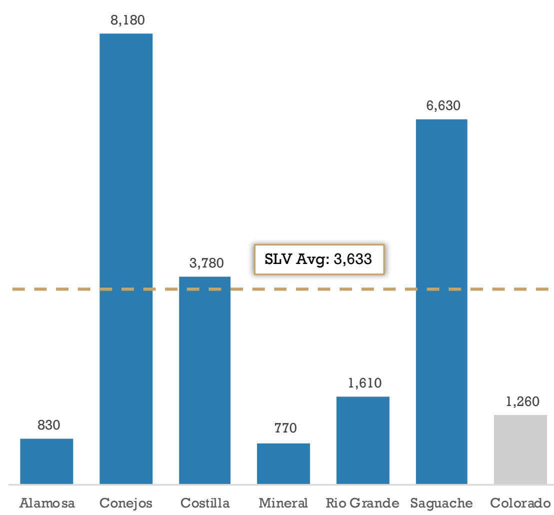
All counties in SLV, except for Mineral County, are designated as medically underserved areas where residents lack adequate access to health care providers. A study by the Colorado Health Institute published in 2018 ranked Conejos, Costilla, and Saguache counties in the bottom five counties in the state for overall access to care. This is evident when looking at the number of residents per primary care physician and per dentist. SLV has 30% more residents per primary care physician than the rest of the state, and 188% more residents per dentist. The limited number of dentists can drive up the cost of dental care with some residents finding it cheaper to drive to nearby cities such as Pueblo for dental care. There are also no major dental chains with a presence in the valley, which presents a real investment opportunity.

NO. RESIDENTS PER PRIMARY CARE PHYSICIAN



Source: County Health Rankings

NO. RESIDENTS PER DENTIST



Source: County Health Rankings

While adequate access to care is an overarching issue for the area, having sufficient aged care facilities will be of increasing importance to addressing SLV's health care needs in the future. This includes assisted living, advanced memory loss care, and around the clock nursing care. There are currently several assisted living and nursing home facilities in SLV. The largest is The Bridge, an 85-bed unit for private pay residents in Alamosa. While many of these facilities also accommodate early stage dementia care, as well as a few at-home care services, SLV has significantly limited access to specialized memory loss facilities that accommodate late stage dementia. There is just one 6-bed memory loss facility in the valley with many patients having to go to Pueblo or Salida for adequate care. The Alzheimer's Association estimates that between approximately 5% to 6% of the population over the age of 65 will develop Alzheimer's Dementia, which equates to approximately 600 to 700 people in SLV. This presents an opportunity to construct a new facility in SLV.

These facilities will face two big issues locally. The first is affordability as the average cost per bed per month is approximately $6,000 to $8,000, and not all facilities accept Medicaid so many patients face substantial out-of-pocket expenses. The second is attracting and retaining qualified staff, which is a persistent issue for a number of industries in SLV, particularly healthcare, given its isolated location. SLV sees a number of providers either commute into the valley for work, or they relocate to the area for a limited time before leaving for higher paying jobs or more attractive communities outside the valley.

Based on these thematics and economic drivers in SLV, YCP sought to identify a pipeline of potential investment opportunities. The primary focus was finding qualifying Opportunity Zone investment opportunities. As discussed further below, investing in Opportunity Zones comes with certain time constraints so opportunities need to be well advanced and ready to deploy capital almost immediately (i.e. shovel ready). Due to the lack of such readily investable opportunities in SLV's Opportunity Zones, the scope was expanded to consider all opportunities in and around the valley.

SLV OPPORTUNITY ZONES

Opportunity Zones ("OZs") were enacted as part of the Tax Cuts and Jobs Act in December 2017 as a federal tax incentive designed to encourage long-term investments into operating businesses and real estate projects in low-income urban and rural communities across the nation to help drive economic growth and job creation. Investors are encouraged to make these investments through favorable treatment of reinvested capital gains and the potential forgiveness of tax on capital gains realized from the new investments in the OZ.

OZs themselves are designated low-income census tracts where new investments, under certain circumstances, may be eligible for preferential tax treatment. The designated census tracts must exhibit one of two defining characteristics:

- Have a poverty rate of at least 20%; or
- Meet the median family income test:
    - Have a median family income that is more than 20% less than the statewide average for census tracts in non-metropolitan areas; or
    - Have a median family income that is more than 20% less than the greater of the statewide average or the overall metropolitan median family income for census tracts within metropolitan areas

Investing in OZs allows for the deferral and potential reduction of capital gains taxes, as well as possible elimination of capital gains taxes on the OZ investment. Both short and long term capital gains realized from the sale of numerous different asset classes (such as real estate, stocks, cryptocurrencies, etc) can be re-invested within 180 days[15] into a Qualified Opportunity Fund ("QOF") and the tax on that gain is deferred until the earlier of the date on which the new OZ investment is sold or exchanged, or the 2026 tax year. If the OZ investment is held for a period of five years or longer, 10% of the original gain is excluded (i.e. there is a 10% step up in the original cost basis), and if the OZ investment is held for a period of seven years or longer, an additional 5% of the original gain is excluded. If the OZ investment is held for a period of ten years or longer, the capital gain realized on that investment will be tax free.

A QOF is an investment vehicle organized as a corporation or a partnership for the purpose of investing in Qualified Opportunity Zone Property ("QOZP"). They can be organized for specific deals or can be more traditional private fund structures that make multiple investments. However, they must hold 90% of their assets in QOZP, which can be opportunity zone stock, opportunity zone partnership interests, or opportunity zone business property.

Stock and partnership interests are essentially holdings acquired after December 31, 2017 in a Qualified Opportunity Zone Business, which is a trade or business in which:

- 70% of all the tangible property owned or leased is Qualified Opportunity Zone Business Property; and
- 50% of gross income is derived from the active conduct of a trade or business in the qualified opportunity zone

Qualified Opportunity Zone Business Property is tangible property used in a trade or business of the QOF that was acquired by the QOF after December 31, 2017, and:

- The original use of the property commences with the QOF; or
- The QOF substantially improves the property, where substantial improvement is satisfied if, during any 30-month period beginning after the date of acquisition of such property, additions to the basis of such property by the QOF exceed an amount equal to the adjusted basis of the property at the beginning of the 30-month period.

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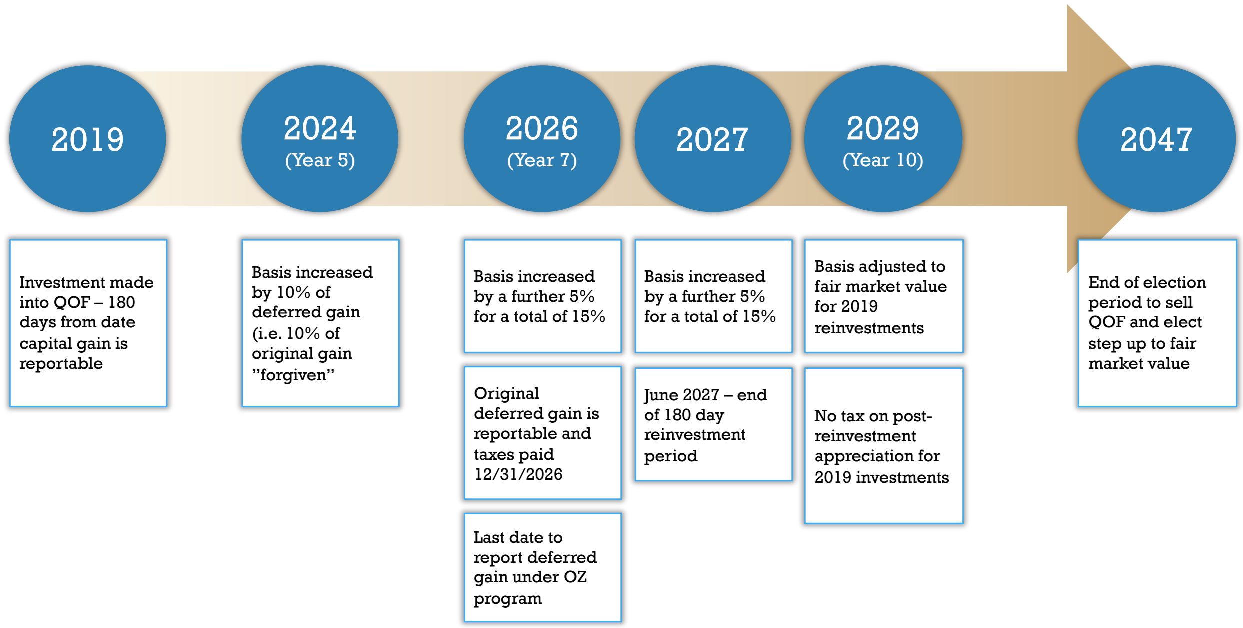
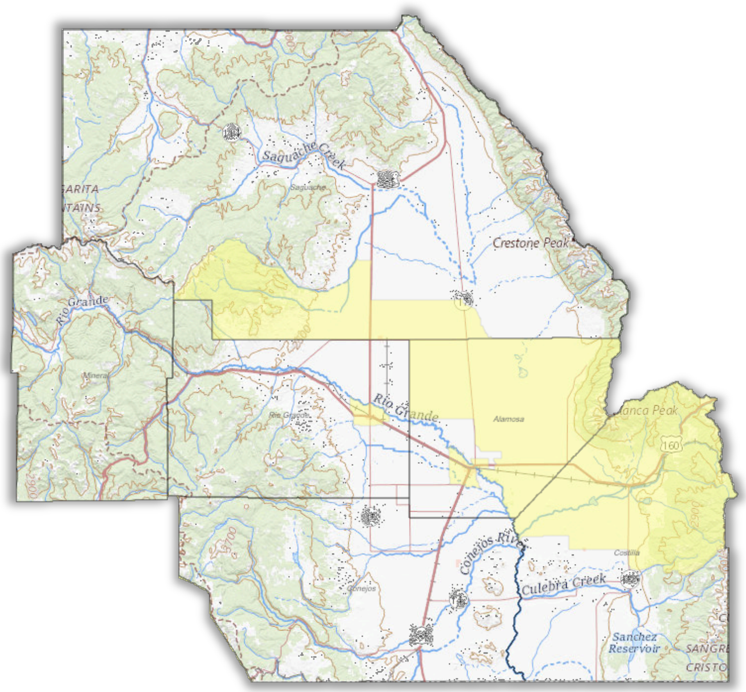
[15] There are beneficial timing rules for gains reportable from partnerships, S corps, trusts and real estate investment trusts, which generally delays the initial gain reporting until Dec. 31, which is the start of the 180-day reinvestment period.

The below timeline illustrates the key dates and benefits, based on a 2019 capital gain realization.



There are over 8,700 OZs nationally, with 126 in Colorado, and six in the SLV. As shown below, the SLV OZs run through the center of the valley covering the City of Monte Vista, most of the City of Alamosa, as well as the towns of Center, Hooper, Mosca, Blanca, and Fort Garland.

PROPORTION OF POPULATION UNDER 65 WITHOUT INSURANCE



Source: Colorado Office of Economic Development & International Trade

In aggregate, these OZs cover 23,672 people, accounting for 51% of the total SLV population. The table below highlights the significantly higher poverty rate in the SLV OZs compared to the rest of Colorado and the United States. The SLV OZs also exhibit lower median household income and a higher proportion of the population is over 65 years old.

	SLV OZs[1]	CO	USA
Poverty Rate[2]	25.5%	11.5%	14.6%
Median Household Income	$37,441	$65,458	$57,652
Median Age	37.5	36.5	37.8
% < 18	25.2%	23.0%	22.9%
% > 65	15.3%	13.0%	14.9%
Unemployment	5.3%	3.5%	4.1%
% Some College or Associates[3]	29.4%	30.2%	29.1%
% Bachelor's degree or Higher[3]	21.6%	39.4%	30.9%

Source: Colorado Office of Economic Development & International Trade; US Census Bureau 2017, 2017
(1) Based on the average across the six opportunity zones in the San Luis Valley; (2) Based on individuals; (3) Based on population over 25 years old

OZs provide new impetus for private investors to allocate capital to distressed, underserved communities across the country. Unlike other economic development incentives, investors can utilize OZs in a broad array of investment opportunities with little or no government involvement. The incentive is also completely uncapped, does not require an application and award process, and OZ investments can themselves take advantage of other applicable economic development incentives, such as new market tax credits or low income housing tax credits.

Opportunity Zones can, in the right circumstances, be an attractive incentive for private investors looking to deploy recently realized capital gains. While much of the OZ activity to date at the time of writing this prospectus has been in real estate projects in urban areas, numerous stakeholders are hoping to see more activity in rural areas, as well as investment in operating businesses following the second set of guidance and proposed regulations released by Treasury and the IRS on April 17, 2019. A public hearing is scheduled for July 9, 2019 and finalized regulations will hopefully follow soon thereafter.

ADDITIONAL ECONOMIC DEVELOPMENT INCENTIVES

As an economic development tool, OZs have a number of advantages: they're uncapped, they're relatively easy and cost effective to utilize, and they can be bundled with other economic development incentives that might be available to investors. There are several additional tools available in SLV that can help spur investment in the area and stimulate economic growth and job creation. A few of these are described below.

San Luis Valley Development Resources Group ("SLVDRG")
SLVDRG is a community organization that promotes and facilitates economic development and job creation in all six counties of SLV. In this endeavor, SLVDRG administers several programs, including, but not limited to:

- **The Business Loan Fund:** a revolving loan fund that most commonly provides subordinated gap financing to local businesses to help cover expansion and startup costs once bank loans, private equity capital, or other sources of financing have been secured. This fund has invested over $6m in partnership with local lenders with loan sizes ranging from $10,000 to more than $500,000.
- **The Enterprise Zone program:** The entire SLV area is a designated enterprise zone, and this program provides nine different tax incentives to encourage businesses to locate and expand in the area. Available tax credits include, but are not limited to, Investment Tax Credits, New Employee Credits, and Vacant Commercial Building Rehabilitation Credits. A complete list is available via the website of the Colorado Office of Economic Development & International Trade at https://choosecolorado.com.
- **Business Expansion and Relation Assistance:** provides businesses with information, contact with local government, and help identifying and assessing potential business sites.
- **SLV COG Mini-Grants:** mini grants of up to $5,000 to local governments to promote and expand the local economic base

New Market Tax Credits ("NMTC")
The NMTC program was designed, much like OZs, to incentivize economic growth and development in low-income and distressed communities by encouraging private investment through federal tax credits. The program allows individual and corporate investors to receive a federal income tax credit in exchange for making an equity investment through a financial intermediary called a Community Development Entity ("CDE"). The credit is worth up to 39% of the original equity stake in the CDE and it is realized over seven years. The program has a limited quantity of credits to allocate each year, which is done via the CDFI Fund. CDEs are required to apply annually for an allocation, which they can then apportion to various projects. More information is available at www.cdfifund.gov.

Low-Income Housing Tax Credits ("LIHTC")
The LIHTC program is an indirect federal subsidy used to finance the construction and rehabilitation of low-income affordable rental housing by private developers and investors. The program incentivizes investors by providing a reduction in their federal tax liability calculated as a percentage of the costs incurred in developing the affordable housing property and is claimed in annual allotments over a 10 year period. LIHTCs are designed to subsidize either 70% or 30% of the cost of a project. New construction or the substantial rehabilitation of an existing building is eligible for the 70% subsidy, which is the equivalent to the present value of 9% tax credits over a 10 year period, unless the building is financed with tax-exempt bonds, in which case it would be eligible for the 30% subsidy, or 4% tax credits. The pool of 9% credits is limited in each year and allocated by the state housing credit agency ("HCA"). As part of utilizing LIHTCs, developers agree to rent the housing at affordable rental rates, which are often below market, and must satisfy one of two area median income ("AMI") restrictions (>20% of units occupied by tenants at <50% AMI; or >40% of units occupied by tenants at <60% AMI) for a period of at least 30 years. More information is available at www.chfainfo.com/arh/lihtc.

Private Activity Bonds ("PAB")
PABs are tax-exempt bonds issued by local or state government where 10% of the proceeds are used for any private business use, and the payment of the principal of, or interest on more than 10% of the proceeds of such issuance is secured by or payable from property used for a private business use. These essentially allow states and cities to borrow on behalf of private companies, lowering their cost of financing, and thus helping to promote investment. To qualify for tax-exempt status, at least 95% of the bet bond proceeds must be used for qualified

purposes, as defined in Section 142(a) of the Internal Revenue Code. In this scenario, interest on the bond would be excluded from gross income for federal tax purposes but may be subject to the alternative minimum tax. The following categories are qualified bonds:

- **Exempt Facility Bonds:** Bonds issued to finance various types of facilities owned or used by private entities, including airports, docks, sewage facilities, solid and hazardous waste disposal facilities, certain residential rental projects, local electric energy gas furnishing facilities, local heating and cooling facilities, and certain other types of facilities.
- **Qualified Small Issue Bonds:** Bonds issued with aggregate proceeds of $1m or less, which is used to acquire, construct or improve a facility used in the manufacturing or production of tangible personal property, or to redeem bonds previously issued for such purposes.
- **Qualified Redevelopment Bonds:** Bonds issued to finance one or more redevelopment purposes by a governmental entity in a designated blighted area. Redevelopment purposes includes the acquisition, clearance, or rehabilitation of real property, or the relocation of occupants of such real property.
- **Qualified Mortgage Bonds:** Bonds issued to fund mortgage loans to finance owner-occupied single-family residential property.
- **Qualified Veteran's Mortgage Bonds:** Bonds issued to fund mortgage loans to finance owner-occupied single-family residential property for veterans.
- **Qualified Student Loan Bonds:** Bonds issued to finance student loans for tertiary education.
- **Qualified 501(c)(3) Bonds:** Bonds issued to finance a facility owned and utilized by a 501(c)(3) organization. These are also not subject to the federal alternative minimum tax.

There is a volume cap to the number of tax-exempt PABs that a state or its agencies can issue in any calendar year, which is equal to the greater of $225m or the state's population multiplied by $75.

INVESTMENT PIPELINE

In developing this prospectus, YCP sought to identify a pipeline of investment opportunities within the OZs in SLV. As OZ investments have certain time constraints, these opportunities need to be well advanced and ready to deploy capital almost immediately. Due to the lack of such readily investable opportunities in SLV's Opportunity Zones, the scope was expanded to consider all opportunities in and around the valley.

The process of compiling this list offered some valuable insights into the local business environment:

- There is a high level of entrepreneurial spirit in the community and almost all opportunities presented to YCP were for new businesses. This was further evidenced when speaking with the SLV Small Business Development Center ("SBDC"), which sees anywhere from four to eight businesses a month, with roughly 75% of those are new business ideas and startups.
- The majority of these new businesses were still concepts or ideas where the entrepreneur was interested in getting funding but had either not fully evaluated the financially viability of the idea or did not have a clear business model.
- There is a tendency toward traditional brick and mortar businesses. These can require substantial funding to get up and running, and in some cases have more operational risk, especially in light of the population and business concentration dynamic seen in SLV.
- There are numerous serial entrepreneurs/business owners but little understanding of equity financing basics, especially in relation to private equity/venture capital funding. Nearly 50% of businesses surveyed said they aren't even aware of alternative funding sources outside of bank loans and personal savings.
- While businesses are keen to receive funding, there is reluctance from new and existing businesses to sell a percentage of their equity in exchange for funding (something that is fundamental to equity financing) or they have unrealistic expectations for what their business is worth.
- As a result, there is a heavy reliance on trying to fund startup businesses from personal savings or using business and/or personal loans. Over 50% of business owners surveyed said they bootstrapped or self-funded their business with their own equity, and a further 30% relied on debt financing via personal or business loans which can be a hurdle to launching a business. This can be a barrier to new businesses, and business growth in general, especially given SLV is a low-income community.
- This also extends to existing businesses looking to expand, which are more inclined to fund growth through the business's cashflows or bank loans rather than selling a portion of equity to receive the funding.
- Even when businesses were actively seeking capital and were keen to explore equity funding, they were slow to get information turned around and often had no idea exactly how much they needed, the amount of equity they'd be willing to give in exchange for the capital injection, and exact use of funds.

The list outlined below is based on YCP's interactions with businesses in SLV in the context of developing this prospectus and is not intended to be an exhaustive list, nor is it meant to represent all of the current opportunities in SLV.

Advanced Investment Opportunities

Carbone & Company dba Distilleria Del Valle ("DDV")

PROJECT DESCRIPTION	DDV plans to open the first distillery in SLV, initially utilizing organic SLV potatoes to produce and distribute premium distilled beverages. The initial focus will be vodka and gin, with potential future expansion into whiskey, bourbon, and wine. Sales are expected to be a mix of on-site retail sales and wholesale distribution into the local market and surrounding areas with no immediate area-based competitors. Over time, DDV plans to expand to statewide distribution with some distribution in New Mexico and other specialty networks. DDV also plans to develop a c.200 person full-service restaurant offering several food options that leverage the local agriculture community, a tasting room, and bar. The restaurant is expected to help attract visitors, especially some of the 500,000 annual visitors to the nearby Great Sand Dunes National Park, and help bolster on-site sales via cocktails and facility tours. A property has been identified that has ample space to accommodate the distilling equipment, a commercial kitchen, restaurant, tasting room, and storage.
LOCATION	DDV has entered into a lease to own agreement with the owners of an old school gymnasium building located in Mosca, CO, which required an initial down payment and ongoing monthly payments with full ownership anticipated in approximately seven years. Mosca is a 15 minute drive north of Alamosa and a 25 minute drive west of the Great Sand Dunes National Park. This location has been chosen for its ample space (nearly 7,500 square feet in total) and location on the route visitors would take when heading to the sand dunes from Alamosa. It is also adjacent to White Rock Specialties' potato sorting facility, which is where DDV will source its potatoes for distilling. The building is currently zoned manufactured home residential and will need to be rezoned to rural, and then receive a special use for commercial (anticipated to cost approximately $600). Electricity is already available at the building, and it has a 100 gpm irrigation well supplying sufficient water. Sewer will need to be connected and is factored in to the renovation/construction costs.
OPPORTUNITY ZONE?	Yes.
BUSINESS MODEL	At first, the company's primary income will be on-site retail sales of distilled product with gradual expansion of wholesale accounts as production volume allows. On-site sales include bottles, cocktails, individual pours, and prepared foods, while wholesale distribution will be limited to bottles of vodka or gin with additional products to be made available as business allows. Other income streams will include tours of the facility and potential sub-leasing of space. In the future, DDV could add glamping accommodation options on site and host events such as weddings, musical concerts, etc.
TIMING	The team have recently started preliminary preparation work on the building ahead of receiving the requisite permits and zoning approvals. The various licenses (retail liquor license, retail food license, and others) are expected to be received later in spring 2019 so the facility buildout can be completed over the summer.

	Production is targeted to begin in August 2019 and the distillation process only takes seven to ten days for vodka, so the tasting room is scheduled to open just one month later in September 2019. The restaurant is slated for a soft opening early in 2020, which is also the anticipated time frame for the beginning of regional wholesale sales.
FUNDING REQUIREMENT, USES & FORECASTS	DDV is looking to raise approximately $400,000 for a 10% interest in the business to fund renovations and construction work for the distillery, which includes installing the commercial kitchen for the restaurant, purchasing distillery and restaurant equipment, acquiring the requisite licenses, advertising, and covering forecast operational losses over the first two startup years. DDV anticipates breaking even in year three with nearly $650,000 in total revenues and approximately $600,000 in operational costs.
KEY PEOPLE	Nicholas Chambers - 8 years' experience in the Colorado local food distribution business, and the founding GM of Valley Roots Food Hub based out of White Rock Specialties' potato packing facility in Mosca. He is currently running trucks and serving customers throughout the Valley and Front Range and has gained valuable business acumen. He has also been an adjunct instructor at Santa Fe Community College's Biofuels Lab where he has worked in anaerobic digestion, woodchip gasification, and biodiesel. With his experience in solar thermal and distillation, Nicholas is well poised to bring these technologies together in a productive and meaningful way that will be unique across the globe. David Carlberg - over 15 years of food and beverage management experience in addition to four years professional brewing experience. His experience in both personnel development and the craft beverage industry make him the ideal candidate to oversee day to day operations of the company.
CONTACT	Nick Chambers E: info@distilleriadelvalle.com P: 719-588-8245

San Luis Valley Hemp ("SLVH")

PROJECT DESCRIPTION	Founded in 2014, SLVH is a vertically integrated hemp business that grows hemp in SLV and processes several super-food products for bulk distribution and direct retail sales. As one of the largest hemp growers in the nation, SLVH is planning to plant more than 2,500 acres in the 2019 season, as well as having several farmers growing under contract. The business sells some hemp to other processors (currently has LOIs for approximately 300,000lbs for this season) and takes the remaining grain/seed and processes it in their certified food processing facility into shelled hemp seeds, hemp seed oil, hemp protein powder, and energy balls, which are all then sold under SLVH's trademarked brand. These packaged products are available in a growing number of retail outlets and are also sold in bulk to manufacturers that create other products in many different industries. Fiber from the hemp plants is also sold by the bale to manufacturers of other industrial hemp products. SLVH also grows CBD varieties for Farma products, such as tinctures and topical balms, created by a partner CBD processing plant.
LOCATION	SLVH's hemp is grown locally in the valley, which is one of the best hemp growing regions in the country. The processing facility and retail shop is located in Del Norte, CO and has sufficient excess capacity for the anticipated near-term growth.
OPPORTUNITY ZONE?	Not currently but open to relocating to one.
BUSINESS MODEL	As a vertically integrated business, SLVH's primary source of revenue is from the sale of its branded end products and bulk-sale items. SLVH makes additional revenue from the sale of baled hemp fiber
TIMING	SLVH is actively looking to raise funds now as the growing season gets underway. This will provide sufficient time for the business to onboard new staff and expand their processing capabilities ahead of harvest.
FUNDING REQUIREMENT, USES & FORECASTS	SLVH is looking to raise approximately $500,000 by way of investor loans to fund the expansion of its processing capacity to meet increasing customer demand and to hire sales and marketing resources. Projected revenue for 2019 is approximately $350,000 with approximately $60,000 in operating costs. This is forecast to increase to $700,000 in revenue in 2020 with $150,000 in operating costs.
KEY PEOPLE	Monte Robertson – experience starting and running businesses. He oversees the operational side of SLVH, builds new industries and is responsible for research, education, compliance, packaging, marketing, and farmer relations. Shannan Wright and Dion Oakes – two highly experienced barley and potato farmer with a background managing multiple large scale farms in SLV. In 2019, their sixth year growing hemp on a production scale, they will be planting more than 2,500 acres of hemp.
CONTACT	Monte Robertson E: monte@slvhemp.com P: 719-299-5000

Mountain View Motor Sports ("MVMS")

PROJECT DESCRIPTION	MVMS is a new business looking to develop an off-road adventure park near Antonito, CO, in the southern part of SLV, to capitalize on the growing local tourism industry and provide a destination for outdoor recreation enthusiasts. There nearest off-road parks to SLV are more than 100 miles away and don't offer the full suite of activities and amenities planned by MVMS, allowing MVMS to be a year-round attraction for local residents of SLV as well as drawing off-road enthusiasts from surrounding areas in Colorado and northern New Mexico. MVMS intends to build several off-road race tracks, a campground, a flea market, a music stage for special events, and a convenience store. The go-kart track is planned to encompass the outer perimeter of the park for razor racing in summer and snowmobile racing in winter. MVMS plans to initially buy 20 razors to rent out at a rate per 5 laps, and also allow users to bring their own vehicle for a track rental fee. MVMS also plans to build a mud drag track for drag races in 6 – 12 inches of mud, a pulling track for pulling competitions, a five foot deep mud bog track (bounty hole) with prize money for those who successfully get their truck through the hole, motocross tracks for people to race their own dirt bikes, a 4x4 obstacle course, and a few other attractions for children and other visitors. The campground is proposed to open with a mix of 100 RV and tent sites, with fire pits, picnic tables, showers, bathrooms, a laundry facility, and a sewage dump station for RVs. A small camp/convenience store is also planned on site to sell items such as soda, toiletries, paper goods, propane, gasoline, diesel fuel, and food to visitors. The park is also planned to have a 50-site flea market to run every other weekend, and a music stage to host a wide variety of music events. Substantial work to date has gone in to preliminary site plans for the park layout, developing a website, getting quotes for construction, and also getting quotes and indicative coverage for insurance.
LOCATION	MVMS is currently assessing the viability of a few separate pieces of land near Antonito, CO. Some sits are owned by the Colorado state land board, which would be leased, while others are privately owned and available for purchase. This area is being targeted due to the availability of open flat land that is close to highway 285, the main north/south thoroughfare in the valley. All sites are sufficiency far away from Antonito that noise should not be an issue.
OPPORTUNITY ZONE?	No.
BUSINESS MODEL	MVMS intends to generate revenue from several sources: • Go-kart fees: Visitors paying to rent the razors owned by MVMS to race on the track at a price of $15 per razor per 5 laps • Track rental fees: Visitors paying to rent the various tracks to race their own vehicles • Accommodation: Nightly charges for use of the camping and RV sites, as well as fees for RVs to utilize the proposed dump station • Special events: Sell ticket for events, such as concerts and race events, and sell beverages and food to patrons • Flea market: Rental fee for vendors to use a space in the flea market • Restaurant sales: Revenue generated from the onsite restaurant

TIMING	MVMS is actively progressing conversations with the Colorado state land board, Costilla county, and private land owners to secure an appropriate site for development of the park. Once secured, MVMS will be ready to submit plans for permitting, which is expected to take approximately 90 days. Construction of the go-kart track is expected to be completed approximately 120 days from receiving funding. The other tracks and the camp site are planned to be built out progressively over the first 12 months.
FUNDING REQUIREMENT, USES & FORECASTS	MVMS is looking to raise $2.6m in capital to fund development of the entire park. Development costs include acquisition of land, equipment (earth-moving equipment to build the tracks as well as approximately 20 off-road go-karts to begin with), the construction of the facilities (electrical, sewer, etc), and sufficient cash for the first year of operations. Estimated annual revenue to be approximately $700,000 once fully operational, with annual operational costs of approximately $250,000.
KEY PEOPLE	Mike LaForest – deep experience in several relevant fields that make him well suited to start and operate MVMS. He currently holds, or as previously held six certifications as an electrical journeyman, diesel mechanic, welder, commercial builder, and he previously managed the Steam Train Hotel in Antonito.
CONTACT	Mike LaForest E: mikelaforest@mountainviewmotorsport.com P: 979-480-2755

Croatan Oyate acquisition of The Cuchara Inn

PROJECT DESCRIPTION	Croatan Oyate (Tribal Nation) is looking to acquire, renovate, and rebrand the Cuchara Inn, a 43-room seasonal mountain resort in central downtown Cuchara, CO, to capitalize on the shortage of accommodation options in the area and turn the business around following a few years of mismanagement. Competing locations are 10+ miles from central Cuchara and are typically fully booked up to a year in advance. Croartan Oyate has developed plans to renovate and update the guest rooms, with the aim to have approximately half of the rooms open for the last part of the 2019 high season towards fall. There are also plans to open a 60-seat breakfast café given the very limited dining options locally, and the ability to turn the second floor of the reception building, which isn't current being used, into a conference facility to expand the potential customer base and extend the visitor season. In the future, there may also be the ability to rent space along the front of the resort on the main street for retail shops.
LOCATION	The resort is located in Cuchara, CO, which is on the eastern slopes of the Sangre de Cristo Mountains just to the east of SLV. It is a popular area during the summer months with a variety of outdoor activities, including fishing, hiking, mountain biking, and the Rio Grande Scenic Railroad.
OPPORTUNITY ZONE?	No.
BUSINESS MODEL	The primary source of income will be nightly room rentals, with comparable locations in Cuchara and La Veta booking at $125 - $175 per night during the high summer season. Other revenue will be generated through the food and beverage sales in the breakfast café, conference facility rental, and sub-leasing retail space at the front of the hotel.
TIMING	The Cuchara Inn is currently for sale so Croatan Oyate is looking to raise funding immediately and begin renovations as soon as possible with the hope of having limited availability for the tail end of summer and the full renovation completed ahead of summer 2020.
FUNDING REQUIREMENT, USES & FORECASTS	Croatan Oyate it looking to raise $950,000 from outside investors to go alongside their $550,000 proposed investment to purchase and renovate the Cuchara Inn. Outside investors will receive a dividend equivalent to 12% of their investment with the potential to be bought out within five years. Approximately $725,000 is allocated for the acquisition of the building, with the rest being used for remodeling, a new roof, and working capital. Croatan Oyate is currently anticipating revenue to be approximately $700,000 once the resort is fully operating post renovations, with operational costs of approximately $400,000.
KEY PEOPLE	Itancan Wasaka – experienced business executive previously managing $5 billion+ corporate business divisions, as well as corporate marketing experience, and experience as the CFO of a restaurant group. Kimimela Wacici – significant experience managing several restaurants and housekeeping operations for several large hotels. Tatanaka Yasla – 30+ years' experience in commercial and residential multiunit renovations and construction. Cantaca Pisce – more than 20 years' experience managing restaurants.

CONTACT	Mark Roberts (Itancan Wasaka) E: hrmmark@gmail.com P: 860-303-8223

Nascent Potential Investment Opportunities + Concepts

Below is a list of the more nascent potential investment opportunities and business concepts YCP identified while compiling this prospectus. To assist with further analyzing and developing these more conceptual projects, the Colorado Office of Economic Development & International Trade ("OEDIT") has made OZ Technical Support Grants available via local economic development organizations. OEDIT is expecting these grants to be less than $10,000 although they can be requested for any amount but do have a 1:3 matching requirement. However, they can be used to fund a broad range of activities, such as feasibility studies, developing pro forma project cash flow forecasts, obtaining deal structuring and legal advice, and putting together investment marketing materials, that will help in getting the project to a point that is 'investor ready.' SLV businesses should look to leverage these grants to bring in consultants and industry experts who can help bring some of these earlier stage projects to market.

Alzheimer/Dementia Aged Care Center

As discussed earlier in the document, SLV is in need of aged care, and one specialized are of opportunity is Alzheimer/dementia care. Currently there is only one six bed facility in Alamosa but there are as many as 600+ people in SLV[16] suffering from the disease. As a result, when these people need 24-hour care in the later stages of the disease, they are forced to go to facilities outside the valley places like Pueblo, Colorado Springs, and Denver. Patients currently spend $6,000 to $8,000 per month for a bed, so a fifteen-bed facility locally could generate approximately $1.0m - $1.5m in annual revenue. This could be constructed in an Opportunity Zone and could require roughly $2m - $5m in funding to acquire land, construct the facility, and fund other startup costs.

San Luis Biorefining LLC ("SLB")

Using technology already proven by California based Greenbelt Resources, Inc., SLB has plans to build a 2nd generation biorefining facility in an Opportunity Zone near Center, CO. The facility plans to take crop waste from the local agriculture industry in SLV and produce 750,000 gallons of fuel-grade and solvent-grade (used in CBD extraction) ethanol a year, as well as animal feed as a by-product. The company has letters of intent for approximately 40% of projected annual ethanol production, verbal confirmations of interest in purchasing animal feed, and interest from CBD extractors. A potential site has been identified and total project costs have been estimated at approximately $10.5m to acquire the land, acquire the equipment, and construct the facility.

Broadband

Internet coverage and quality are issues in SLV, with only 71% of households having internet and significantly slower speeds than the national average. This also impedes business, with just over one third of businesses surveyed reporting internet connectivity as an issue for their business. Two companies in SLV, the San Luis Valley Rural Electric Cooperative, which offers fiber internet services under the brand Ciello, and Jade Communications, an Alamosa based internet, phone, and TV service provider, have plans to expand their fiber networks. In a sparse rural area like SLV, this is a capital intensive endeavor but one that could present an opportunity for an outside equity partner to inject capital to fund the network expansion in order to get to market quicker than competitors.

Monte Vista/Alamosa Truck Stop

SLV experiences high trucking volumes year-round, especially during potato harvest, with over 40,000 truckloads of produce leaving the valley every year, which is more than 100 per day on average. Truck traffic is increasing year-round but there isn't a major truck stop along the US 160 highway, which is the major east-west route the truckers take. A full scale truck stop could be developed outside Alamosa or Monte Vista in the opportunity zones to service these truckers.

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[16] Based on statistics from the Colorado Alzheimer Association, which show that approximately 10% of people over the age of 65 develop the Alzheimer/dementia disease.

Hot Springs

One of the hot springs facilities located in an Opportunity Zone is not currently looking for an outside equity investment but may be open to selling the business to the right buyer. The business has strong historical revenue growth over the past eight years and the estimated acquisition cost is $10m. The potential buyer would likely need to bring in their own management team.

Affordable Housing

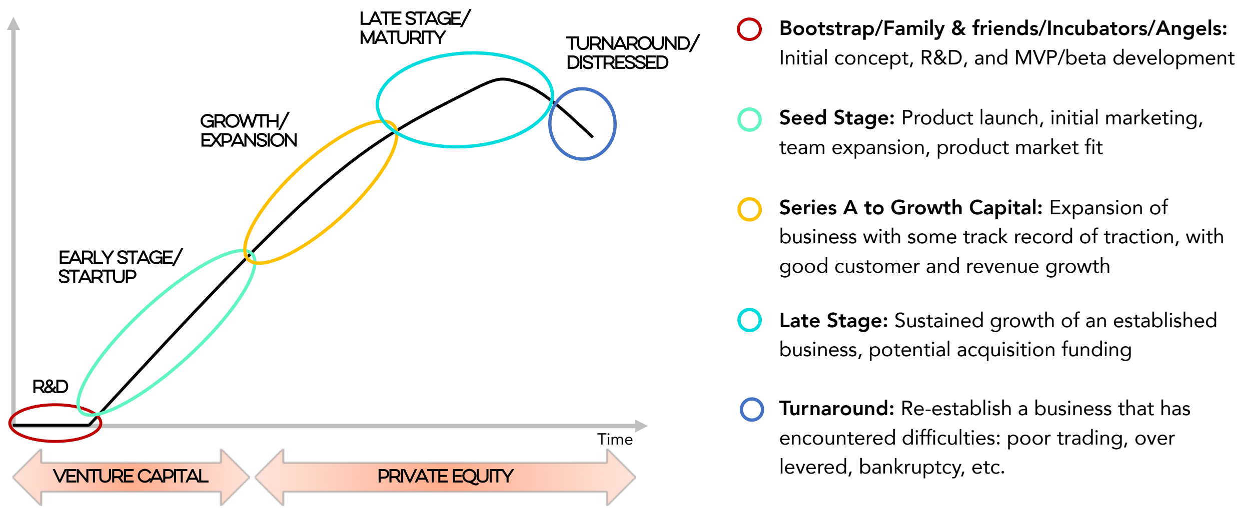
Similar to many rural, low-income communities, SLV is facing an affordable housing crisis. Although vacancy rates in the local real estate market would suggest there is some excess supply, the age of the housing stock and the undersupply of affordable housing presents a real opportunity to construct new affordable housing options throughout the valley, especially three to four+ bedroom homes for larger families. While Alamosa and Monte Vista have the population to support affordable housing facilities, areas like Costilla county need an affordable housing complex, and Antonito in the southern part of the valley does not currently have an affordable housing option. Given affordable housing charges below market rent, it is likely a project of this nature would need to either to leverage other economic development incentives in conjunction with those provided via Opportunity Zones, and potentially consider developing multiple housing units with a mix of affordable and market-rate units in order to make the economics work.

Wolf Creek Ski Area

Potential ability to assist in the development of the approximately 2,000 housing units and multiple stores and restaurants planned at the Wolf Creek Ski Area. Given the location of the ski resort and the likely influx of employees that will be required to staff the new development at the base of the ski field, there may opportunities to develop housing units in nearby Del Norte or South Fork.

ESTABLISHMENT OF AN ANGEL FUNDING SOURCE

Private equity refers to the investment of capital into a privately owned company. "Private" in this instance is merely the distinction between whether the company is privately owned or publicly listed on an exchange for any outside investor to purchase shares. Different stages of a business have different inherent risks and potential returns. This in turn attracts different types of private equity investors at each specific stage. The chart below depicts an illustrative business lifecycle over time from inception through to maturity and turnaround.



Part of our engagement was to identify a pipeline of potential investments within the OZs in SLV. When looking at OZ investment to date, it has predominantly been through sophisticated "institutional investors," such as, real estate private equity fund managers. Therefore, our aim was to build a pipeline that was most likely to attract institutional capital and fit within their investment criteria. We refer to this as being "investor ready." Based on our conversations with this institutional investor demographic, we learned that many of their investments are either in pre-existing investment opportunities that now happen to be within OZs, such as the urban fringe, and/or they are assessing potential investments through their standard investment criteria with the OZ tax incentives merely being used to boost performance *after* the investment has passed their basic screening mechanisms. In other words, OZs did not reflect a sudden new interest in rural but rather a performance kicker for any pre-existing or new opportunities on the horizon. Additionally, due to the nature of OZs, these fund managers are required to deploy their underlying investors' capital in most cases within 180 days of that investor rolling over his or her capital gains into the fund. This makes it essential for all potential investments to be "shovel ready" or progressed enough with permitting, plans, and financial forecasts in order for them to utilize the OZ tax incentives.

While we identified several industries in SLV primed for growth and investment, most of the businesses seeking funding were in the R&D or startup phase. As the chart above indicates, these early stage companies may have unproven concepts or founders and are, therefore, less likely to attract institutional private equity investors like the ones most actively investing in OZs. For example, a Colorado based social impact manager called Four Points Funding has an investment mandate that targets returns in the low to mid-teens over a 10-11 year investment horizon *before* the use of OZ tax incentives. They prefer to write $5-10MM equity checks and lean towards real estate projects or investing in established, asset backed operating businesses. Meanwhile, another example of an institutional investor interested in earlier stage businesses, Greater Colorado Venture Fund, is looking to invest $100-$250K into early stage, high growth businesses with some proven traction. Knowing there were at least two rural focused fund managers eager to deploy capital into the Colorado region, we set out to find a local business that fit one of these fund manager's investment criteria. Therefore, as part of our engagement we held office hours both in town and remotely requesting entrepreneurs interested in funding to provide the following:

- Responses to a brief questionnaire that covered what the business does, how it makes money, the founder's backgrounds and how that is relevant to the business, evidence of market validation, how they have funded the business to date, how much funding they are currently looking for, what it'll be used for, and what percentage ownership the investor(s) would receive in return for the equity investment
- A 10 – 20 slide pitch deck that covers the above
- For new businesses, one year projected cashflows
- For existing businesses, last two years cashflows, income statement, and balance sheet

These materials are basic information that would be asked by any of these fund managers as part of their due diligence process and only one entrepreneur came to our office hours with all of it on hand. Moreover, the majority of immediate investment opportunities in SLV are startup brick and mortar businesses or expansion plans for existing brick and mortar businesses that require relatively small amounts of funding relative to the average check size a fund like Four Points Funding seeks to deploy. Meanwhile, for a venture capital investor like the Greater Colorado Venture Fund, these traditional brick and mortar businesses have the same, if not more, startup risk as high growth technology companies but they do not have the same rapid scale and growth potential.

Exacerbating the hurdles to the creation of new businesses in SLV is the lack of funding options available to the community. Nearly 85% of businesses surveyed are funded with the owners' personal savings or bank loans. Moreover, many locals were not aware that taking a capital injection from private investors was even a potential source of capital to finance their businesses and did not know what the process would be to solicit or take on this outside investment. When debt is underwritten to the creditworthiness of the individuals or their businesses, alternative financing options like private equity is a powerful and untapped tool to foster new business ventures within SLV. Finally, this lack of familiarity with private equity also breeds disinterest or unrealistic valuations for some of the community's most promising businesses that could use the capital to supercharge their growth and bring on value added equity partners. Before the community can be ready for institutional capital, it needs to begin to educate, promote, and provide a local source of private equity. That is why we recommend the establishment of a local angel network to fill the funding void that exists to seed and support local businesses and foster the entrepreneurial spirit evident in the community. While we failed to meet many investor ready businesses during our office hours, we came across a few pre-existing businesses not currently seeking capital and/or not within OZs that could be of interest to them, as well as, several investment ideas that could be developed to fit these investment criteria. It was clear there was opportunity within the region and a true entrepreneurial spirit that could be fostered. At the moment, many rural communities are looking to OZs as the latest economic development tool to jumpstart their economies, but it is our professional opinion that communities like SLV and rural, in general, have limited investment opportunities that fit the return profile and investment criteria of institutional investors deploying capital into OZs. Therefore, instead of solely focusing on OZs, we see this as a catalyst for conversation around private equity as a funding source for local businesses in general and encourage communities like SLV to implement its own private equity funding opportunities to support its fledgling enterprises before it can seek institutional capital.

There is no singular model that SLV must follow in establishing an angel network for the community. Instead, it may consider assessing the endeavor as either a passive or proactive approach. Wherein, a passive approach would be establishing a network of accredited investors[17], a regulatory definition for those with at least $1MM in net worth or making $200,000 a year in income, who are interested in investing in local businesses and meet regularly to hear pitches from those seeking funding. This would require vetting the network's financial status and coordinating the meetings, aiding in assessment, and providing tools for its entrepreneurs and first time investors to utilize when negotiating these investment opportunities. The benefit of a passive approach is that the ultimate responsibility for assessing and executing investments resides with the angels themselves on a deal-by-deal basis without a particular entity or governmental organization having to take on the legal and financial responsibilities. This is the easiest to get started and a Denver based angel network called Rocky Ventures Club is a preeminent model of this structure at work within the broader state of Colorado. The cons to the passive

[17] A legal definition for those with at least $1MM in net worth and/or making $200,000 a year in individual or $300,000 in joint income.

approach are the lack of control around ensuring investments are actually made and the need to dedicate time and resources to education and keeping the network actively engaged. In this role as a facilitator, the organizing entity must ensure there is active outreach and education provided to both entrepreneurs and angels in order to keep both parties engaged. In order to finance the coordination of this network, the organizing entity may consider charging a fixed participation fee to be part of the angel network and have access to these investment opportunities.

Alternatively, SLV may consider a more proactive approach by formally establishing its own angel fund that can be administered by a community organization, such as SLVDRG. Due to SLVDRG's existing inhouse expertise doing substantially similar work in the management and deployment of its revolving loan fund, we believe establishing an equity fund under the same organization would have the fewest barriers to implementation. Unlike the passive approach, a formal community angel fund would provide a guaranteed pool of capital that is deployed for the benefit of local businesses with a dedicated team responsible for sourcing, assessing, and investing the money. To avoid the need to register as an investment adviser for its activities, it is crucial that the administering organization, such as SLVDRG, creates the fund through its own *proprietary* assets. The moment it manages assets invested into the fund by another entity or individual and charges a management fee, it is acting as an investment adviser and will need to follow applicable securities laws. Much like SLVDRG's revolving loan fund, the earnings from its equity investments (e.g. dividends from the business and/or proceeds from the sale of their shares) can be used to finance the operation and management of the fund and can be reinvested in future opportunities. The cons to the proactive approach are the additional burdens on the organization and the need to source the initial capital to form the fund. The community may consider government grants, such as, the U.S. Economic Development Administration's ("EDA") Regional Innovation Strategies ("RIS") Program which specifically awards grants for the formation, launch, and growth of early-stage seed capital funds. Pending budget authorizations, the EDA intends to run the next RIS competition in early 2020. In order to provide structure, consistency, and mitigate performance risk within the fund's portfolio, is important to establish clear investment guidelines for deploying capital. Examples of some considerations are:

- Size of each investment (e.g. $10,000 to $200,000);
- Stage of business (e.g. new businesses with prototypes or proven revenue, business with up to $1m in annual revenues);
- Industry focus (e.g. agriculture, healthcare, retail);
- Business location (e.g. San Luis Valley, Opportunity Zones);
- Market opportunity (e.g. large target markets of $200m+);
- Founders (e.g. only investing in founders with deep industry experience or a history of starting successful businesses);
- Use of capital (e.g. funds must be used to achieve certain milestones);
- Exit opportunity (e.g. multiple routes available for the angels to realize their investment over time).

The need to educate potential angel investors is lower within this proactive approach, it is important that educational resources still need to be provided to local entrepreneurs. During the course of our office hours, we noted a lack of proper planning and polished pitch for many genuinely valid and potentially great business ideas. In conjunction with either the passive or proactive approach, it is important that more education be provided to entrepreneurs to assist them with thinking through their business opportunities and crafting the appropriate narrative to present to potential investors. Organizations like the SBDC provide some useful fundamentals, but it is geared towards evaluating and preparing businesses for debt financing. Given their vastly different risk profiles, it is crucial to understand that underwriting for debt and pitching for equity are two distinctly different processes. Regardless of which angel network approach the community pursues. It should understand some key tenets of private equity due diligence.

Step 1: Evaluation of Materials
The team should establish a set of standard documents that are required to be provided by the business for consideration for funding. This typically includes a pitch deck and responses to initial screening questions that helps assess the opportunity against the angel network or angel fund's investment criteria, the first hurdle for any investment. At this stage, outside of fitting within the investment criteria, the business should be able to clearly articulate:

- What the business does
- How it makes money
- What industry it is in
- Who the founders are
- How much funding they require
- And, what are the use of the funds

This is where having local insight into a local business opportunity is useful as it is at this stage that potential investors generally feel excited or disinterested in an investment opportunity based upon their industry knowledge or biases at first glance. Plenty of great investment opportunities are overlooked at this stage either for not fitting within preset investment criteria or being poorly presented. It happens and it is okay. It is also why educating entrepreneurs on *how* to present their ideas is an important tool for local businesses to develop. Should an investment have strong success factors or simply be intriguing enough for further assessment, then it is time to meet the founders.

Step 2: Founder Meeting/Business Pitch
In the instance of a passive angel network, this is when the business may have the formal opportunity to pitch to the broader network. For the angel fund, this is the chance to meet the founders of the business and hear their pitch in person. The pitch along with initial information provided should prompt a number of follow up questions, so it is also an opportunity to discuss things in more detail directly with the founders of the business and get a feel for the founders as entrepreneurs and business managers. A strong founding team is an important factor to identifying potentially successful companies. In lieu of proven founders, a new team with strong industry experience within their chosen business venture or management skills are positive indicators for success.

Step 3: Detailed Diligence
With a passive angel network, this stage will typically be handled by each angel individually based on their own personal preferences. As an angel fund, this is the equivalent step to underwriting a loan. Everything so far has been based on the founder's assertions and demeanor as potential successful businessmen. Now, it is time to verify the information. This step takes a deep dive into the business, customers, product, market, and other aspects of the opportunity to confirm that there is a true business opportunity that exists and establishes what risks are involved in the investment. Key areas to cover include: corporate structure and governance, market size and trends, competition, business model, current financial situation, forecast financial growth, quality of management team, go to market strategy, sales and marketing, customer satisfaction, quality of technology, pricing, valuation, and exit strategy.

Step 4: Offer
A business seeking funding should come to the table with the terms they desire in the funding transaction, for example, $100,000 investment in preferred stock for 20% of the company. If the company passes diligence, this is the opportunity to either accept the funding terms or counter with alternative terms that are most likely to drive the performance outcomes you are looking for. This is also the opportunity to establish requirements for funding that may help mitigate certain risks that were identified during the due diligence process. For instance, staffing changes to remove weak key employees or require certain capital improvements. At this stage, it is a negotiation and either party may decide not to progress to deal consummation. Finally, all good equity investments have an exit strategy. The investor should plan upfront how they may eventually be able to realize their investment in the business whether through an ownership buyback, acquisition, IPO, etc. This should be considered upfront and the ongoing management of the investment opportunity is the task of working towards this desired outcome.

The following exhibits are for informational purposes and does not provide legal advice. Materials are provided for context regarding common practices. However, they are not designed for the purpose of providing legal documents or advice to individuals and entities. YCP makes no representations as to accuracy, completeness, suitability, or validity of any information and will not be liable for any errors, omissions, or delays in this information.

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Exhibit A – Sample Due Diligence Considerations

- Corporate Structure and Governance
  - What is the corporate structure?
  - Is the corporate structure simple or overly complicated? If complicated, why, and can it be simplified?
  - How many existing shareholders and would an investment be on the same or different terms?
  - What valuation did existing shareholders invest at?
  - What is the founder share allocation? Do they have a large enough interest to be incentivized to grow the business? Do they have majority voting rights? Does the founders' stock vest over time?
  - Who is on the board? Do they have relevant backgrounds to help the business succeed? How are they compensated?
  - Does the business have a board of advisers and, if so, who is on the board? Do the advisers actively participate in the company's development? How are advisers compensated?
  - Has the business been involved in any litigation or been threatened with litigation?
  - Does the business have all required state and/or federal permits and licenses?
  - Are they properly incorporated or registered? Do they have by-laws or equivalent constituent documents?

- Financials
  - Does the business have historical financials? Have they been prepared in accordance with accounting rules? Has the business used an independent accountant? Have they been audited?
  - Have all tax returns been properly filed?
  - Does the business currently have any debt?
  - Does the business have financial projections or a budget? Are the projections realistic? How have the assumptions been developed (e.g. rate of growth, pricing, customer acquisition, costs)?
  - Is the business cashflow positive? If not, when does expect to be and how much investment will be required to get it there?
  - Has the business previously received funding? If so, how much did it raise and at what valuation and terms?
  - Is the current valuation reasonable? Does it reflect the current stage of development and market potential?

- Market Assessment
  - What customer need or problem is the business seeking to address? Is it a new or existing market?
  - Does their product/service adequately address that need or problem
  - Does the business have a sales and marketing plan?
  - Does the business have or need partnership or joint venture relationships?
  - Is the business focused on the appropriate market development, or is it trying to do too much at one time?
  - Does its product or service represent a market push or pull?
  - What is the potential market size?
  - Has it conducted thorough market research to support its financial assumptions, revenue model, and valuation?
  - What is its stage of development?
  - If the business has already launched its product or service, how many customers does it have and how many potential customers are there?
  - What are the channels of distribution?
  - Does the business's product or service have a seasonal aspect?
  - Are operating costs largely fixed or are they variable depending on the level of sales?

- Competition
  - Who are the business's main competitors?

- Is the market dominated by a few big players or is it highly fragmented with numerous smaller players?
- How does the business differ to them and what is its competitive advantage?
- What does the market share look like?
- How will this business beat the competition?
- What do business compete on: price, product, service, etc.?

- Management Team (interview all team members and get references for key employee)
  - What is the caliber/pedigree of the management team?
  - Have they previously started similar businesses or worked in the industry?
  - Is the management open to discussion and suggestions on improving or changing the business model or internal operations?
  - How are management and all other employees being compensated?
  - Does the business have an employee share option plan? Have options been granted to all employees? What percentage do the founders have compared to other key management? Are their shares subject to a vesting schedule?

- Technology Assessment (may require expert or professional assistance)
  - What is the stage of the technology development?
  - Does the business have adequate intellectual-property protection, such as patents and trademarks? Does it need it?
  - Is the business relying on being first to market, rather than on any IP position, for competitive advantage, and is this realistic?
  - Is it proprietary architecture or open-source code?
  - Has the business properly set up relationships and documentation to ensure ownership of all intellectual property?
  - Does the business have IP assignment agreements in place with its employees?

- Operations
  - Has the business considered all aspects of operations to successfully launch its product or service?
  - Has the business identified and costed any property requirements, such as store fit outs, building construction etc.? Are those costs reasonable and necessary for the business?
  - What is the business model? How does the company make money? Is this sustainable and scalable?
  - What is the sales and marketing strategy?
  - What is the cost of customer acquisition?
  - How long is the typical sales cycle?
  - How long are customer contracts typically for?
  - Does the business have repeat customers?
  - Are there future expansion plans for new products/services, new markets, etc.?
  - Is there an exit strategy for the business?

- Other things to look out for
  - Unrealistic valuations
  - Complicated investment terms
  - A lot of debt
  - Single customer or single supplier businesses
  - Inexperienced management
  - Poor cashflow management or understanding of the financials
  - No clear growth plan
  - Poor understanding of market

<u>Exhibit B – Sample Due Diligence Checklist</u>

Below is an indicative checklist of items that can be reviewed as part of the due diligence process. Many of these documents may not be available for some very early stage businesses and other information not on the list may be integral to appropriately diligencing an investment. Due diligence request lists will be dependent on the specific business and opportunity under review.

- Corporate
  - ☐ Copies of certificates of incorporation or registration
  - ☐ Copies of bylaws, articles of association or equivalent constituent documents
  - ☐ Shareholders' agreements or similar
  - ☐ Copies of key employee agreements and any agreements with any advisors or board members
  - ☐ Details of any contract employees and terms of engagement
  - ☐ Details of any employee share option plans
  - ☐ Copies of any stock restriction agreements
  - ☐ Details of any charges or other encumbrances over shares
  - ☐ Copies of management accounts and board minutes for the past three years or since inception
  - ☐ Copies of any employee policies
  - ☐ Details of any settled, pending or threatened litigation claims and disputes
  - ☐ Any other material contracts – i.e. partnership agreements, research & development joint ventures, etc.

- Finance
  - ☐ Copies of financial statements and tax returns for the past three years if available, as well as year to date financials if part way through a year
  - ☐ Copies of any internal budgets or financial forecasts
  - ☐ Details of any external loans, mortgages, overdraft facilities, or other debt financing agreements
  - ☐ Details of any leasing arrangements and copy of agreements
  - ☐ A schedule of any the business's assets, both tangible and intangible
  - ☐ Details of any personal guarantees given over business loans
  - ☐ Details of any supplier financing arrangements, receivables factoring, or customer financing programs
  - ☐ Details of any government grants, subsidies, or similar funding received
  - ☐ List of key customers, including proportion of revenue per customer and copies of key contracts
  - ☐ List of key suppliers and copies of key contracts
  - ☐ Details of employee benefits plans

- Intellectual Property
  - ☐ Details of all registered IP such as trademarks, patents, domain names, computer code etc.
  - ☐ Details of any material unregistered intellectual property rights such as copyright (including logos, advertising materials etc.), methodologies, process information and technical knowhow
  - ☐ Copies of all agreements relating to IP, such as employee IP assignments, licenses to/from the business, and confidentially agreements

- IT Documentation
  - ☐ Details of software and hardware used, and copies of any license agreements
  - ☐ Copies of any IT support and maintenance agreements
  - ☐ Copies of or access to code base for review
  - ☐ Details of any disaster recovery plans
  - ☐ Details of any security policies, protocols and procedures

- Other
  - ☐ Copies of any business plan, marketing materials, or investor presentations

<u>Exhibit C – Example Pitch Deck Components[18]</u>

- Vision and Value Proposition
  - Quick one-sentence overview of your business and the value that you provide to your customers
  - Imagine it as a short tweet—describe your business in 140 characters in a way your parents would understand
  - It's common for companies to make a comparison to another well-known company, for example: "We're the Uber for Pets" or "We're the Netflix for Video Games"

- The Problem
  - Use this slide to talk about the problem you are solving and who has the problem
  - You can talk about the current solutions in the market, but don't spend too much time on the competitive landscape on this slide—you'll have a chance to do that on a later slide
  - Try and tell a relatable story when you are defining the problem. The more you can make the problem as real as possible, the more your investors will understand your business and your goals

- Target Market and Opportunity
  - Expand on who your ideal customer is and how many of them there are
  - What is the total market size and how do you position your company in the market (e.g. Airbnb is in the travel accommodation space they represent X% of a $YBN market)
  - Investors want to know how much people or businesses currently spend in the market to get a sense of the total market size (this is where you tell the story about the scope and scale of the problem you are solving)
  - If it makes sense for your business, you may want to divide your market into segments that you will address with different types of marketing and perhaps different types of product offerings
  - It's tempting to try and define your market as large as possible, but what's most important is that you have a very specific and realistically reachable market
- The Solution
  - Describe how customers use your product and how it addresses the problems that you outlined on slide two
  - Most entrepreneurs are very focused on their product when instead they need to be focused on their customers and the problems those customers face, so try to keep your pitch deck focused with this format and you'll tell a better story
- Revenue Model or Business Model
  - What do you charge and who pays the bills (e.g. some businesses, like content sites, advertisers pay the bills instead of users, so it's important to flesh out the details here)
  - You can also reference the competitive landscape here and discuss how your pricing fits into the larger market (e.g. are you a premium, high-price offering, or a budget offering that undercuts existing solutions on the market?)
- Traction and Validation/Roadmap
  - If you already have sales or early adopters using your product, talk about that here—investors want to see that you have proven some aspect of your business model since that reduces risk, so any proof that your solution works to solve the problem is powerful
  - You can also use this slide to talk about your milestones—what major goals have you achieved so far and what are the major next steps you plan on taking?
  - A product or company roadmap that outlines key milestones is helpful here
- Marketing and Sales Strategy
  - Use this slide to outline your marketing and sales plan
  - detail the key tactics that you intend to use to get your product in front of prospective customers
  - Finding and winning customers is one of the biggest challenges for a startup, so it's important to show that you have a solid grasp of how you will reach your target market and what sales channels you plan on using
- Team
  - Why are you and your team the right people to build and grow this company?
  - What experience do you have that others don't?

[18] Adapted from *11 Slides You Need to Have in Your Pitchdeck* (https://articles.bplans.com/what-to-include-in-your-pitch-deck/).

        - Highlight key team members and their successes at other companies and/or the key expertise that they bring to the table
        - Even if you don't have a complete team yet, identify the key positions that you still need to fill and why those positions are critical to company growth
    - Financials
        - Investors will expect to see your financials: sales forecast, profit and loss statement, and cash flow forecast for at least three years—but, for your pitch deck, you shouldn't have in-depth spreadsheets that are difficult to read in a presentation format, so limit yourself to charts that show sales, total customers, total expenses, and profits
        - Be prepared to discuss the underlying assumptions that you've made to arrive at your sales goals and what your key expense drivers are
        - Remember to try and be realistic
        - It is useful if you can explain your growth based on traction you already have or compared to a similar company in the same or a related industry
    - Competition
        - Even if you are opening up an entirely new market, your potential customers are using alternative solutions to solve their problems today, so describe how you fit into the competitive landscape and how you're different than the competitors and alternatives that are on the market today
        - What key advantages do you have over the competition or is there some "secret sauce" that you have and others don't?
    - Investment and Use of Funds
        - It's time to actually ask for the money
        - You need to be able to explain why you need the amount of money you are asking for and how you plan on using the money

Exhibit D – Sample Convertible Note[19]

REMINDER: This form has been prepared for general informational use only. Because this sample contract does not represent the unique facts and circumstances of your situation, it is highly recommended that you seek legal advice from an appropriately licensed attorney.

NOTE PURCHASE AGREEMENT

THIS NOTE PURCHASE AGREEMENT (the "Agreement") is made as of [Date], by and among [Company Name] (the "Company"), and the lenders (each individually a "Lender," and collectively the "Lenders") named on the Schedule of Lenders attached hereto (the "Schedule of Lenders"). Capitalized terms not otherwise defined in this Agreement shall have the meanings ascribed to them in Section 1 below.

WHEREAS, each of the Lenders intends to provide certain Consideration to the Company as described for each Lender on the Schedule of Lenders; and

WHEREAS, the parties wish to provide for the sale and issuance of such Notes in return for the provision by the Lenders of the Consideration to the Company.

NOW, THEREFORE, THE PARTIES HEREBY AGREE AS FOLLOWS:

1. **Definitions**.

1.2. "**Change of Control**" shall mean a sale, conveyance or other disposition of all or substantially all of the property or business of the Company (other than to a wholly-owned subsidiary of the Company), or a merger or consolidation with or into any other corporation or other business transaction or series of transactions as a result of which stockholders of the Company immediately prior to the transaction would hold less than a majority of the voting interests of the Company (or successor or parent company thereof) after the transaction; provided that a Change of Control shall not include any transaction or series of related transactions principally for bona fide equity financing purposes (including, but not limited to, the Next Equity Financing) in which cash is received by the Company or any successor or indebtedness of the Company is cancelled or converted or a combination thereof occurs.

1.3. "**Common Stock**" shall mean the Company's common stock, par value [Value of Common Stock] per share.

1.4. "**Consideration**" shall mean the amount of money paid by each Lender pursuant to this Agreement as shown on the Schedule of Lenders.

1.5. "**Equity Securities**" shall mean the Company's Common Stock or preferred stock or any securities conferring the right to purchase the Company's Common Stock or preferred stock or securities convertible into, or exchangeable for (with or without additional consideration), the Company's Common Stock or preferred stock, except any security granted, issued and/or sold by the Company to any director, officer, employee or consultant of the Company in such capacity for the primary purpose of soliciting or retaining their services.

1.6. "**Initial Public Offering**" or "**IPO**" shall mean the closing of the issuance and sale of shares of Equity Securities of the Company in the Company's first underwritten public offering pursuant to an

[19] Sourced from UpCounsel, Inc., *https://www.upcounsel.com/venture-capital-financing.*

effective registration statement under the Securities Act of 1933, as amended (the "**Act**").

1.7. "**Majority Note Holders**" shall mean the holders of a majority in interest of the aggregate principal amount of Notes outstanding.

1.8. "**Maturity Date**" shall mean [Date 1 Years from Issue].

1.9. "**Next Equity Financing**" shall mean the next sale (or series of related sales) by the Company of its Equity Securities following the date of this Agreement from which the Company receives gross proceeds of not less than $[Minimum Value of Next Equity Financing] (excluding the aggregate amount of debt securities converted into Equity Securities upon conversion of the Notes pursuant to Section 2.2 below); provided that an Initial Public Offering shall not qualify as a Next Equity Financing.

1.10. "**Notes**" shall mean the one or more unsecured promissory notes issued to each Lender pursuant to Section 2.1 below, the form of which is attached hereto as Exhibit A.

1.11. "**Person**" shall mean any individual, partnership, limited liability company, corporation, trust, joint venture, unincorporated organization, other legal entity, government or agency or political subdivision thereof.

2. **Terms of the Notes**

2.1. **Issuance of Notes**. In return for the Consideration paid by each Lender, the Company hereby agrees to issue and sell to each Lender, and each Lender agrees, severally and not jointly, to purchase Notes on the terms and conditions set forth herein, to be paid to the Company by check or wire transfer or cancellation of indebtedness or a combination thereof on or before the date of the Closing (as defined below). Each Note shall have a principal balance equal to that portion of the Consideration paid by such Lender for the Note, as set forth in the Schedule of Lenders. The Company's obligations to each Lender shall be evidenced by the Note delivered to the Purchasers on the date of the Closing.

2.2. **Conversion of Notes.**

2.2.1. **Next Equity Financing.** The outstanding principal and unpaid accrued interest of each Note shall be automatically converted into Equity Securities issued in the Next Equity Financing at a price equal to [100% - Discount] % of the price paid per share for Equity Securities by the investors in the Next Equity Financing (the "Conversion Price"). The number of Equity Shares to be issued upon such conversion shall be equal to the quotient obtained by dividing the outstanding principal and unpaid accrued interest on each Note, on the date of conversion, by the Conversion Price. At least three (3) days prior to the closing of the Next Equity Financing, the Company shall deliver notice to the holder of each Note at the address last shown on the records of the Company for the Lender or given by the Lender to the Company for the purpose of notice (or, if no such address appears or is given, at the place where the principal executive office or residence of the Lender is located), notifying the Lender of the conversion to be effected and the terms under which the Equity Securities of the Company will be sold in such financing. The issuance of Conversion Shares pursuant to the conversion of each Note shall be upon and subject to the same terms and conditions applicable to the Equity Securities sold in the Next Equity Financing, including any minimum shareholding requirements for the exercise of certain stockholder rights.

2.2.2. **Maturity Conversion.** If the Next Equity Financing has not occurred on or before the Maturity Date, the outstanding principal and unpaid accrued interest of each Note, at the option of the Majority Note Holders, upon delivery of written notice to the Company on or after the Maturity Date, may be paid in cash or converted into Common Stock at a price per share equal to the fair market value of the Common Stock at time of such conversion as determined by the Company's Board of Directors (the "Maturity Conversion Price"). The number of Common Stock to be issued upon conversion shall be equal to the quotient obtained by dividing the outstanding principal and unpaid accrued interest due on a Note to be converted, or portion thereof, on the date of conversion by the Maturity Conversion Price.

2.2.3. **Change of Control or IPO.**

Alt. 1 In the event of a Change of Control or Initial Public Offering prior to the time when a Note may be converted (as provided herein), the outstanding principal and unpaid accrued interest due on such Note shall, at the option of the Majority Note Holders, either (i) be due and payable in full immediately prior to the closing of the Change of Control or Initial Public Offering or (ii) be converted into Common Stock at a price per share equal to the fair market value of the Common Stock at time of such conversion as determined by the Company's Board of Directors. At least ten (10) days prior to the closing of the Change of Control or IPO, the Company shall notify the Note holders in writing of the terms of the Change of Control or IPO. If the Majority Note Holders fail to make an election within five (5) days after such notice is given by the Company, all outstanding principal and unpaid accrued interest due on such Note shall be converted into Common Stock.

Alt. 2 In the event of a Change of Control or Initial Public Offering prior to the time when a Note may be converted (as provided herein), all outstanding principal and unpaid accrued interest due on such Note shall be automatically converted into Common Stock at a price per share equal to the fair market value of the Common Stock at time of such conversion as determined by the Company's Board of Directors, immediately prior to the closing of the Change of Control or Initial Public Offering.

2.2.4. **No Fractional Shares.** Upon the conversion of a Note pursuant to 2.2.1, 2.2.2 or 2.2.3, any fraction of a share will be rounded down to the next whole share of the Conversion Shares.

2.2.5. **Mechanics of Conversion.** The Company shall not be required to issue or deliver the Conversion Shares until the Note holder has surrendered the Note to the Company. Such conversion may be made contingent upon the closing of the Next Equity Financing, Initial Public Offering or Change of Control. Upon the conversion of any Note, the holder of such Note shall have no further rights under such Note, whether or not such Note is surrendered.

2.3. **Closing**

Alt. 1 The closing (the **"**Closing") of the purchase of the Notes in return for the Consideration paid by each Lender shall take place on [Date Note Will Close] or at such other time and place as the Company and Lenders purchasing a majority in interest of the aggregate principal amount of the Notes to be sold at the Closing agree upon orally or in writing. At the Closing, each Lender shall deliver the Consideration to the Company and the Company shall deliver to each Lender one or more executed Notes in return for the respective Consideration provided to the Company.

Alt. 2 The initial closing (the **"Initial Closing**") of the purchase of the Notes in return for the Consideration paid by each Lender shall take place on [Date Of Initial Closing] or at such other time and place as the Company and Lenders purchasing a majority in interest of the aggregate principal amount of the Notes to be sold at the Initial Closing agree upon orally or in writing. At the **Initial** Closing, each Lender shall deliver the Consideration to the Company and the Company shall deliver to each Lender one or more executed Notes in return for the respective Consideration provided to the Company. In any subsequent closing (each a "Subsequent Closing"), the Company may sell additional Notes subject to the terms of this Agreement to any Lender as the Company shall select provided that such sale shall not take place later than the earlier of (i) [Date Note Closes] or (ii) the date that the Next Equity Financing, Initial Public Offering or Change of Control (whichever occurs earliest) is consummated. Any subsequent purchasers of Notes shall become a party to, and shall be entitled to receive Notes in accordance with this Agreement upon delivery of the appropriate executed signature pages. Each Subsequent Closing shall take place at such locations and at such times as shall be mutually agreed upon orally or in writing by the Company and such purchasers of additional Notes. Each of the Initial Closing and Subsequent Closing(s), if any, shall be referred to herein as the "Closing."

2.4. **Representations and Warranties of the Company**

2.4.1. In connection with the transactions provided for herein, the Company hereby represents and warrants to the Lenders the following.

2.4.2. **Organization, Good Standing and Qualification**. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of [Formation State] and has all requisite corporate power and authority to carry on its business as now conducted. The Company is duly qualified to transact business and is in good standing in each jurisdiction in which the failure to so qualify would have a material adverse effect on its business or properties.

2.4.3. **Authorization**. Except for the authorization and issuance of the shares issuable in connection with the Next Equity Financing or the Common Stock issuable in connection with a conversion of the Notes pursuant to Section 2.2.2 or Section 2.2.2, all corporate action has been taken on the part of the Company, its officers, directors and stockholders necessary for the authorization, execution and delivery of this Agreement. The Company has taken all corporate action required to make all of the obligations of the Company reflected in the provisions of this Agreement, the valid and enforceable obligations they purport to be, except as may be limited by (i) applicable bankruptcy, insolvency, reorganization or similar laws relating to or affecting the enforcement of creditors' rights, (ii) laws relating to the availability of specific performance, injunctive relief or other equitable remedies, and (iii) applicable usury laws. The shares of capital stock issuable upon conversion of the Notes have been authorized or will be authorized prior to the issuance of such shares.

2.4.4. **Loan**. The Company hereby represents that it intends to use the proceeds of the Notes primarily for the operations of its business and not for any personal, family or household purpose. The Company hereby represents that its board of directors, in the exercise of its fiduciary duty, has approved the execution of this Agreement based upon a reasonable belief that the loan provided for herein is appropriate for the Company after reasonable inquiry concerning its financial objectives and financial situation.

2.5. **Representations and Warranties of the Lenders**. In connection with the transactions provided for herein, each Lender hereby represents and warrants to the Company that:

2.5.1. **Authorization**. This Agreement constitutes such Lender's valid and legally binding obligation, enforceable in accordance with its terms, except as may be limited by (i) applicable bankruptcy, insolvency, reorganization or similar laws relating to or affecting the enforcement of creditors' rights, (ii) laws relating to the availability of specific performance, injunctive relief or other equitable remedies, and (iii) applicable usury laws. Each Lender represents that it has full power and authority to enter into this Agreement.

2.5.2. **Purchase Entirely for Own Account**. Each Lender acknowledges that this Agreement is made with Lender in reliance upon such Lender's representation to the Company that the Notes any Conversion Shares issuable upon conversion of the Notes (collectively, the "Securities") will be acquired for investment solely for the Lender's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that such Lender has no present intention of selling, granting any participation in or otherwise distributing the same. By executing this Agreement, each Lender further represents that such Lender does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to the Securities.

2.5.3. **Disclosure of Information**. Each Lender acknowledges that it has received all the information it considers necessary or appropriate for deciding whether to acquire the Securities. Each Lender further represents that it has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Securities and to obtain any additional information necessary to verify the accuracy of the information given the Lender.

2.5.4. **Investment Experience** . Each Lender is an investor in securities of companies in the development stage and acknowledges that it is able to fend for itself, can bear the economic risk of its investment and has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment in the Securities. If other than an individual, each Lender also represents it has not been organized solely for the purpose of acquiring the Securities.

2.5.5. **Economic Risk**. Each Lender understands that the Company has limited financial and operating history, and that investment in the Company involves substantial risks. Each Lender understands that risks related to the purchase of the Securities. Each Lender further acknowledges that the purchase of the Securities is a highly speculative investment. Each Lender represents that it is able, without materially impairing its financial condition, to hold the Securities for an indefinite period of time and to suffer a complete loss of its investment.

2.5.6. **Accredited Investor**. Each Lender is an "accredited investor" within the meaning of Rule 501 of Regulation D of the Securities and Exchange Commission (the "**SEC**"), as presently in effect.

2.6. **Restricted Securities**. Each Lender understands that the Securities are characterized as "restricted securities" under the federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Act only in certain limited circumstances. Each Lender recognizes that the Company has no obligation to register the Securities of the Company, or to comply with any exemption from such registration. Each Lender represents that it is familiar with SEC Rule 144, as presently in effect, and understands the resale limitations imposed thereby and by the Act. Each Lender is aware that the conditions for resale set forth in Rule 144 have not been satisfied and that the Company presently has no plans to satisfy these conditions in the foreseeable future.

2.7. **Further Limitations on Disposition**. Without in any way limiting the representations and warranties of each Lender as set forth above, each Lender further agrees not to make any disposition of all or any portion of the Securities unless and until the transferee has agreed in writing for the benefit of the Company to be bound by this Section 2.5, Section 2.12.11, 2.12.12 and:

2.7.1. The Company shall have received a letter secured by the Lender from the SEC stating that no action will be recommended to the Commission with respect to the proposed disposition; or

2.7.2. There is then in effect a registration statement under the Act covering such proposed disposition and such disposition is made in accordance with such registration statement; or

2.7.3. (i) Lender has notified the Company of the proposed disposition and has furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and (ii) if reasonably requested by the Company, Lender shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such shares under the Act. It is agreed that the Company will not require opinions of counsel for transactions made in accordance with Rule 144 except in extraordinary circumstances.

2.7.4. **Foreign Investors**.

2.7.4.1. **Observation of Laws**. If the Lender is not a United States person (as defined by Section 7701(a)(30) of the Internal Revenue Code of 1986, as amended), the Lender hereby represents that it has satisfied itself as to the full observance of the laws of its jurisdiction in connection with any invitation to subscribe for the Securities or any use of this Agreement, including (i) the legal requirements within its jurisdiction for the purchase of the Securities, (ii) any foreign exchange restrictions applicable to such purchase, (iii) any government or other consents that may need to be obtained and (iv) the income tax and other tax consequences, if any, that may be relevant to the purchase, holding, redemption, sale or transfer of the Securities. The Lender's subscription and payment for and continued beneficial ownership of the Securities will not violate any applicable securities or other laws of the Lender's jurisdiction.

2.7.4.2. **Registration of the Notes**. The Notes issuable under this Agreement shall be registered notes. The Company will keep, at its principal executive office, books for the registration and registration of transfer of the Notes. Prior to presentation of any Note for registration of transfer, the Company shall treat the Person in whose name such Note is registered as the owner and holder of such Note for all purposes whatsoever, whether or not such Note shall be overdue, and the Company shall not be affected by notice to the contrary. Subject to any restrictions on or conditions to transfer set forth in any Note, the holder of any Note, at its option, may in person or by duly authorized attorney surrender the same for exchange at the Company's chief executive office, and promptly thereafter and at the Company's expense receive in exchange therefore one or more new Note(s), each in the principal requested by such holder, dated the date to which interest shall have been paid on the Note so surrendered or, if not interest shall have yet been so paid, dated the date of the Note so surrendered and registered in the name of such Person or Persons as shall have been designated in writing by such holder or its attorney for the same principal amount as the then unpaid principal amount of the Note so surrendered.

2.8. **Further Assurances**. Each Lender agrees and covenants that at any time and from time to time it will promptly execute and deliver to the Company such further instruments and documents and take such further action as the Company may reasonably require in order to carry out the full intent and purpose of this Agreement and to comply with state or federal securities laws or other regulatory approvals.

2.9. **Legends.** It is understood that the Securities may bear the following legends:

"THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED UNDER SUCH ACT OR UNLESS SOLD IN ACCORDANCE WITH RULE 144

UNDER SUCH ACT."

"THESE SECURITIES ARE SUBJECT TO, AND MAY BE TRANSFERRED ONLY IN COMPLIANCE WITH, THAT CERTAIN CONVERTIBLE NOTE PURCHASE AGREEMENT BETWEEN THE ISSUER AND THE HOLDER, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE ISSUER."

Any legend required by the blue sky laws of any state to the extent such laws are applicable to the securities represented by the certificate or other document so legended.

2.10. **Colorado Corporate Securities Law**

THE SALE OF THE SECURITIES WHICH ARE THE SUBJECT OF THIS AGREEMENT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF COLORADO AND THE ISSUANCE OF SUCH SECURITIES OR THE PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION FOR SUCH SECURITIES PRIOR TO SUCH QUALIFICATION IS UNLAWFUL, UNLESS THE SALE OF SECURITIES IS EXEMPT FROM QUALIFICATION BY COLORADO SECURTIES LAW. THE RIGHTS OF ALL PARTIES TO THIS AGREEMENT ARE EXPRESSLY CONDITIONED UPON SUCH QUALIFICATION BEING OBTAINED, UNLESS THE SALE IS SO EXEMPT.

2.11. **Defaults and Remedies**

2.11.1. **Events of Default** The following events shall be considered events of default with respect to each Note (each individually an "**Event of Default**"):

2.11.1.1. If the Company defaults in the payment of any part of the principal or unpaid accrued interest on the Note and the Company fails to cure such breach within thirty (30) days after receipt of written notice thereof from the holder, after the earlier of (i) the date on which the Majority Note Holders demand payment on or subsequent to the Maturity Date or (ii) the date fixed for payment by acceleration or otherwise; or

2.11.1.2. If the Company makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts as they become due, or files a voluntary petition for bankruptcy, or files any petition or answer seeking for itself any reorganization, arrangement, composition, readjustment, dissolution or similar relief under any present or future statute, law or regulation, or files any answer admitting the material allegations of a petition filed against the Company in any such proceeding, or seeks or consents to or acquiesces in the appointment of any trustee, receiver or liquidator of the Company, or of all or any substantial part of the properties of the Company, or the Company or its respective directors or majority stockholders take any action looking to the dissolution or liquidation of the Company; or

2.11.1.3. If upon sixty (60) days after the commencement of any proceeding against the Company seeking any bankruptcy reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such proceeding has not been dismissed, or if upon sixty (60) days after the appointment without the consent or acquiescence of the Company of any trustee, receiver or liquidator of the Company or of all or any substantial part of the properties of the Company, such appointment has not been vacated.

2.11.2. **Remedies.** Upon the occurrence of an Event of Default under Section 2.11.1 hereof, at the option and upon the declaration of the Majority Note Holders and upon written notice to the Company, the entire unpaid principal and accrued and unpaid interest on the Notes shall, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived, be forthwith due and payable, and the Majority Note Holders may, immediately and without expiration of any period of grace, enforce payment of all amounts due and owing under the Notes and exercise any and all other remedies granted to them at law, in equity or otherwise.

2.12. **Miscellaneous**

2.12.1. **Successors and Assigns**. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

2.12.2. **Governing Law**. This Agreement and the Notes shall be governed by and construed under the laws of the State of [Home State] as applied to agreements among [Home State] residents, made and to be performed entirely within the State of [Home State].

2.12.3. **Counterparts**. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

2.12.4. **Titles and Subtitles**. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

2.12.5. **Notices**. All notices and other communications given or made pursuant hereto shall be in writing (including facsimile or similar electronic transmissions) and shall be deemed effectively given: (i) upon personal delivery to the party to be notified, (ii) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient, if not so confirmed, then on the next business day, (iii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid or (iv) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the respective parties at the following addresses (or at such other addresses as shall be specified by notice given in accordance with this Section 2.12.5): If to the Company: [Company Address] and if to Lenders at the respective addresses shown on the signature pages hereto.

2.12.6. **Finder's Fee**. Each party represents that it neither is nor will be obligated for any finder's fee or commission in connection with this transaction. Each Lender agrees to indemnify and to hold harmless the Company from any liability for any commission or compensation in the nature of a finder's fee (and the costs and expenses of defending against such liability or asserted liability) for which such Lender or any of its officers, partners, employees or representatives is responsible. The Company agrees to indemnify and hold harmless each Lender from any liability for any commission or compensation in the nature of a finder's fee (and the costs and expenses of defending against such liability or asserted liability) for which the Company or any of its officers, employees or representatives is responsible.

2.12.7. **Expenses**. The Company and the Lenders will each bear their own legal and other expenses with respect to this Agreement**.** Notwithstanding the foregoing, if any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

2.12.8. **Entire Agreement; Amendments and Waivers**. This Agreement and the Exhibits hereto constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof. The Company's agreements with each of the Lenders are separate agreements, and the sales of the Notes to each of the Lenders are separate sales. Nonetheless, any term of this Agreement or the Notes may be amended and the observance of any term of this Agreement or the Notes may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the Majority Note Holders**.** Any waiver or amendment effected in accordance with this Section 2.12.8 shall be binding upon each party to this Agreement and any holder of any Note purchased under this Agreement at the time outstanding and each future holder of all such Notes.

2.12.9. **Effect of Amendment or Waiver**. Each Lender acknowledges that by the operation of Section 2.12.8 hereof, the Majority Note Holders will have the right and power to diminish or eliminate all rights of such Lender under this Agreement and each Note issued to such Lender.

2.12.10. **Severability**. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

2.12.11. **"Market Stand-Off" Agreement**. Each Lender hereby agrees that it will not, without the prior written consent of the managing underwriter, during the period commencing on the date of the final prospectus relating to the Company's Initial Public Offering and ending on the date specified by the Company and the managing underwriter (such period not to exceed one hundred eighty (180) days but subject to such extension(s) as may be required by the underwriters in order to accommodate regulatory restrictions on (i) the publication or other distribution of research reports and (ii) analyst recommendations and opinions, including, but not limited to, the restrictions contained in FINRA Rule 2711(f)(4) or NYSE Rule 472(f)(4), as applicable, (or any successor rules or amendments thereto)) (a) lend, offer, pledge, sell, make any short sale of, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of the Company's Equity Securities held immediately prior to the effectiveness of the Registration Statement for such offering, or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Company's Equity Securities acquired through the conversion of any Note contemplated by this Agreement, whether any such transaction described in clause (a) or (b) above is to be settled by delivery of securities, in cash or otherwise. The Company may impose stop-transfer instructions with respect to the Equity Securities subject to the foregoing restriction until the end of said one hundred eighty (180) day (or longer) period. Notwithstanding Section 2.12.1 of this Agreement, the underwriters in connection with the Company's Initial Public Offering are intended thirdparty beneficiaries of this Section 2.12.11 and shall have the right, power and authority to enforce the provisions hereof as though they were a party hereto. Each Lender further agrees to execute such agreements as may be reasonably requested by the Company or by the underwriters in the Company's Initial Public Offering that are consistent with this Section 2.12.11 and necessary to give further effect thereto.

2.12.12. **Stock Purchase Agreement**. Each Lender understands and agrees that the conversion of the Notes into Conversion Shares may require such Lender's execution of certain agreements in the form agreed to by investors relating to the purchase and sale of such securities as well as registration, cosale, rights of first refusal, rights of first offer and voting rights, if any, relating to such securities.

2.12.13. **No Usury**. This Agreement and each Note issued in conjunction with this Agreement are hereby expressly limited so that in no event whatsoever, whether by reason of deferment or advancement of loan proceeds, acceleration of maturity of the loan evidenced hereby, or otherwise, shall the amount paid or agreed to be paid to the Lenders hereunder for the loan, use, forbearance or detention of money exceed the maximum interest rate permitted by the laws of the State of Colorado. If at any time the performance of any provision hereof or any Note involves a payment exceeding the limit of the price that may be validly charged for the loan, use, forbearance or detention of money under applicable law, then automatically and retroactively, ipso facto, the obligation to be performed shall be reduced to such limit, it being the specific intent of the Company and the Lenders hereof that all payments under this Agreement or any Note are to be credited first to interest as permitted by law, but not in excess of (i) the agreed rate of interest set forth in the Note or (ii) that permitted by law, whichever is the lesser, and the balance toward the reduction of principal. The provisions of this Section 2.12.13 shall never be superseded or waived and shall control every other provision of this Agreement and any Note.

2.12.14. **Acknowledgement**. In order to avoid doubt, it is acknowledged that each Lender shall be entitled to the benefit of all adjustments in the number of shares of Common Stock of the Company issuable upon conversion of the preferred stock of the Company or as a result of any splits, recapitalizations, combinations or other similar transactions affecting the Common Stock or preferred stock underlying the Conversion Shares that occur prior to the conversion of the Notes.

2.12.15. **Waiver of Jury Trial**. TO THE EXTENT EACH MAY LEGALLY DO SO, EACH PARTY HERETO HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION, CAUSE OF ACTION OR PROCEEDING ARISING UNDER OR WITH RESPECT TO THIS AGREEMENT, OR IN ANY WAY CONNECTED WITH, OR RELATED TO, OR INCIDENTAL TO, THE DEALING OF THE PARTIES HERETO WITH RESPECT TO THIS AGREEMENT, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND IRRESPECTIVE OF WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE. TO THE EXTENT EACH MAY LEGALLY DO SO, EACH PARTY HERETO HEREBY AGREES THAT ANY SUCH CLAIM, DEMAND, ACTION OR PROCEEDING SHALL BE DECIDED BY A COURT TRIAL WITHOUT A JURY AND THAT EITHER PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF ANY OTHER PARTY HERETO TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

2.12.16. **Electronic and Facsimile Signatures.** Any signature page delivered electronically or by facsimile (including without limitation transmission by .pdf) shall be binding to the same extent as an original signature page, with regard to any agreement subject to the terms hereof or any amendment thereto. Any party who delivers such a signature page agrees to later deliver an original counterpart to the other party if so requested.

Signature Pages Follow

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

COMPANY NAME

By: ____
[Company President Name]

LENDER:

By:____
[Lender Name]

SCHEDULE OF LENDERS

[Schedule of lenders]

CONVERTIBLE PROMISSORY NOTE

THIS NOTE AND THE SECURITIES ISSUABLE UPON THE CONVERSION HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED UNDER SUCH ACT OR UNLESS SOLD IN ACCORDANCE WITH RULE 144 UNDER SUCH ACT.

No. [Note Number]   Date of Issuance

$[Amount of Note]   [Issuance Date]

FOR VALUE RECEIVED, **[**Company Name**]**, a corporation (the "Company"), hereby promises to pay [Lender Name] (the "Lender"), the principal sum of $ [Lending Amount],with simple interest on the outstanding principal amount at the rate of **[**Interest Rate**]**% per annum, provided that in no event shall the interest rate be less than the minimum rate of interest required in order to avoid the imputation of interest for federal income tax purposes. Interest shall commence with the date hereof and shall continue on the outstanding principal until paid in full or converted. This Note is one of a series of Notes issued pursuant to that certain Note Purchase Agreement dated [Note Purchase Agreement Date] among the Company, Lender and certain other investors (the "Purchase Agreement") and is entitled to the benefits of and is subject to the terms contained in that Purchase Agreement. Capitalized terms not defined herein shall have the meaning set forth in the Purchase Agreement.

1. **Maturity**. Unless earlier converted into Conversion Shares pursuant to Section 2.2 of, the Purchase Agreement, the outstanding principal and accrued interest shall be due and payable by the Company on demand by the Majority Note Holders at any time after the Maturity Date.

2. **Payment.** All payments shall be made in lawful money of the United States of America at the principal office of the Lender, or at such other place as the holder hereof may from time to time designate in writing to the Company. Payment shall be credited first to accrued interest due and payable and any remainder applied to principal.

3. **Pre-Payment**

Alt 1 The principal and accrued interest may be prepaid at any time by the Company without penalty, and interest will no longer continue to accrue on any prepaid principal amounts. The Company hereby waives demand, notice, presentment, protest and notice of dishonor.

Alt 2 Prepayment of principal, together with accrued interest, may not be made prior to the Maturity Date without the Majority Note Holders' consent. If pre-payment is consented to by the Majority Note Holders it will be without any prepayment penalties and interest will no longer continue to accrue on any prepaid principal amounts after such pre-payments. The Company hereby waives demand, notice, presentment, protest and notice of dishonor.

4. **Security.** This Note is a general unsecured obligation of the Company.

5. **Priority.** This Note will be subordinate in right of payment to all current and future Company indebtedness to banks, leasing or equipment financing institutions and other financial institutions engaged in the business of lending money, which is for money borrowed or purchase or leasing of equipment in the case of lease or other equipment financing, whether or not secured.

6. **Officers and Directors Not Liable.** In no event shall any officer or director of the Company be liable for any amounts due and payable pursuant to this Note.

7. **Successors and Assigns.** This Note applies to, inures to the benefit of and binds the successors and assigns of the parties hereto. Notwithstanding the forgoing, any transfer of this Note may be effected only in accordance with the Purchase Agreement**.** The Lender and any subsequent holder of this Note receives this Note subject to the foregoing terms and conditions, as well as all other terms and conditions contained in this Note and in the Purchase Agreement, and agrees to comply with all such terms and conditions for the benefit of the Company and any other Lenders.

8. **Titles and Subtitles**. The titles and subtitles used in this Note are used for convenience only and are not to be considered in construing or interpreting this Note.

9. **Amendments and Waivers; Resolutions of Dispute; Notice.** The amendment or waiver of any term of this Note, the resolution of any controversy or claim arising out of or relating to this Note and the provision of notice shall be conducted pursuant to the terms of the Purchase Agreement.

10. **Severability**. If any provision of this Note is held to be unenforceable under applicable law, such provision shall be excluded from this Note and the balance of the Note shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

11. **Expenses.** If any action at law or in equity is necessary to enforce or interpret the terms of this Note, the prevailing party shall be entitled to reasonable attorneys' fees, costs and disbursements in addition to any other relief to which such party may be entitled.

12. **Counterparts**. This Note may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument. Any counterpart delivered electronically by .pdf transmission or by facsimile shall be binding to the same extent as an original counterpart with regard to any agreement subject to the terms hereof or any amendment thereto.

13. **Pari Passu Notes.** Lender acknowledges and agrees that the payment of all or any portion of the outstanding principal amount of this Note and all interest hereon shall be pari passu in right of payment and in all other respects to the other Notes issued pursuant to the Purchase Agreement or pursuant to the terms of such Notes. In the event Lender receives payments in excess of its pro rata share of the Company's payments to the holders of all of the Notes, then Lender shall hold in trust all such excess payments for the benefit of the holders of the other Notes and shall pay such amounts held in trust to such other lenders upon demand by such lenders.

This Note may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Date: **[**Date Issued**]**

COMPANY

By: ________________________ *Sign Here*

[Company Representative Name]

LENDER:

By: ___________________________ *Sign Here*

[Lender Name]

Exhibit E – Sample Revenue Sharing Agreement[20]

REMINDER: This form has been prepared for general informational use only. Because this sample contract does not represent the unique facts and circumstances of your situation, it is highly recommended that you seek legal advice from an appropriately licensed attorney.

REVENUE SHARE AGREEMENT

THIS REVENUE SHARE AGREEMENT (the "Agreement") is made as of [Date], by and among [Company Name] (the "Company"), and [Company Name] (the "Investor").

THE INVESTOR UNDERSTANDS THAT THE INVESTMENT CONTEMPLATED BY THIS AGREEMENT HAS NOT BEEN REVIEWED, APPROVED, OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES EXCHANGE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF ANY INFORMATION GIVEN TO THE INVESTOR OR ANY OTHER INVESTOR IN ASSOCIATION WITH THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE INVESTOR ACKNOWLEDGES AND AGREES THAT IN MAKING AN INVESTMENT DECISION, IT MUST RELY ON ITS OWN EXAMINATION OF THE COMPANY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISK INVOLVED. THERE IS NO GUARANTEE OF RETURNS. INVESTOR FURTHER ACKNOWLEDGES AND AGREES THAT IT MAY LOSE ITS ENTIRE INVESTMENT.

1. **Investment.** Investor agrees to invest the following amount: $[Insert investment amount] (the "Investment Amount")

2. **Revenue Sharing.** Beginning on the "State Date" (the date on which impounded offering proceeds are released to the Company, or, if the Investor invests after the date on which impounded offering proceeds are released to the Company, the date on which the Company deposits Investor's investment into Company's account), the Investor shall receive the following annual payment from the Company:

   ((Investment Amount/Total Investment Amount) * Revenue Share) x Company Annual Revenue

   "Total Investment Amount" shall be defined as the total amount of capital the Company is raising as part of this round of investment.

   "Revenue Share" shall be defined as [Enter percent of revenues Investor will receive]%.

   "Company Annual Revenue" shall be defined as total revenue for the Company's respective fiscal year (which is the calendar year) calculated on a cash basis, excluding any revenue attributable to rebates or refunds. Note that the Company presents its financial statement on an accrual basis. For the purposes of calculation Company Annual Revenue, the Company's CPA shall calculate total revenue on a cash basis at the end of each fiscal year.

   In the first year, the amount due shall be pro-rated as follows: the annual amount shall be multiplied by the number of days remaining in the calendar year following the Start Date and divided by 365.

   Following the first year, the Investor shall be entitled to [Insert number of years Agreement will be in place for] additional annual payments. In the final year of this Agreement, the final payment shall be calculated as follow:

   ((Investment Amount/Total Investment Amount) * Revenue Share) x Company Annual Revenue x ((365 – number of days between Start Date and December 31 of the first year)/365)

   The annual payment shall be made within 60 days of the close of the fiscal year of the Company.

   The following chart provides an illustration (please note that this chart does not constitute a projection – it is intended simply to illustrate the way in which payments will be made under this Agreement).

[20] Adapted from Cutting Edge Capital; *https://www.cuttingedgecapital.com/wp-content/uploads/CEC_DPO_Revenue_Sharing_Agreement_Fill_In.pdf.*

Assumptions:
Start Date = July 15, 2019
Investment Amount = $37,500
Total Investment Amount = $100,000
Number of years the Agreement is for = 5 years

Year	# of Days	Revenue Share %	Total Company Annual Revenue	Annual Payment to Investor
1	169	1.50%	$500,000	$3,473
2	365	1.50%	$600,000	$9,000
3	365	1.50%	$750,000	$11,250
4	365	1.50%	$1,000,000	$15,000
5	365	1.50%	$1,200,000	$18,000
6	196	1.50%	$1,300,000	$10,471
Total Payments to Investor				$67,194

3. **Termination.** This Agreement shall terminate upon the [Insert year number the Agreement will be in place for, e.g. fifth if a five year agreement] anniversary of the Company's first payment to Investor. Section 4 shall survive termination of the Agreement.

4. Representations, Warranties and Covenants of the Investor. The Investor represents and warrants to, and covenants with, the Company, that:

    4.1. Suitability. The Investor is a suitable investor as provided for in the Offering Memorandum, incorporated by reference herein. The Investor shall indemnify, hold harmless, and pay all fees and expenses that are incurred by, and all judgments and claims made against the Company, its affiliates, and counsel, for any liability that is incurred as a result of any misrepresentations made regarding suitability.

    4.2. Risk Factor Review. The Investor has carefully read and fully understands the risks involved with an investment in the Company including, without limitation, the risks identified in the Offering Memorandum. In particular, the Investor understands that the only return to the Investor will be the [Insert number of years] annual payments described in Section 2. The Investor is not entitled to receive the original Investment Amount upon termination of this Agreement. It is possible that the Investor could lose all or part of its original investment.

    4.3. Evaluation of Risks. Investor has the requisite knowledge to assess the relative merits and risks of this investment, or has relied upon the advice of Investor's professional advisors with regard to an investment in the Company. The Investor acknowledges that the Company has made available to it the opportunity to ask questions and receive answers from the Company's officers and directors concerning the terms and conditions of this Agreement and the business and financial condition of the Company, and Investor has received to its satisfaction, such information about the business and financial condition of the Company and the terms and conditions of the Agreement as it has requested.

    4.4. No Registration. Investor understands that this securities offering and sale have not been registered under the Securities Act of 1933, as amended. Investor understands that its investment must be held for the term of this Agreement unless the sale or other transfer thereof is subsequently registered under the Securities Act or an exemption from such registration is available.

    4.5. Advice. The Investor understands that nothing in this Agreement or any other materials presented to the Investor in connection with this offering constitutes legal, tax, or investment advice. The Investor has consulted such legal, tax, and investment advisors, as it, in its sole discretion, has deemed necessary or appropriate in connection with its investment.

    4.6. Own Account. Investor is acquiring the investment for it own account for investment only and with no present intention of distributing the investment or making any arrangement or understanding with any other persons regarding the distribution of such investment.

    4.7. No Resale. The Investor will not, directly or indirectly, offer, sell, pledge, transfer, or otherwise dispose of (or solicit any offers to buy, purchase, or otherwise acquire or take a pledge of) this investment except in compliance with the Securities Act, applicable state securities laws, and the respective rules and regulations promulgated thereunder.

4.8. Complete Information. All information provided by Investor to the Company in connection with the investment, including status financial position, and knowledge and experience of financial and business matters is correct and complete as of the date set forth hereof, and if there should be any change in such information prior to the subscription being accepted, the Investor will immediately provide the Company with such information.

4.9. Ability to Bear Economic Risk. The overall commitment of Investor to investment which are not readily marketable is not excessive in view of the Investor's net worth and financial circumstances, and this investment will not cause such commitment to become excessive. Investor is able to bear the economic risk of this investment.

4.10. Authority; Binding Agreement. Investor further represents and warrants to, and covenants with, the company that (i) Investor has full right, power, authority, and capacity to enter into this Agreement and to consummate the transactions contemplated hereby and has taken all necessary action to authorize the execution, delivery, and performance of this Agreement, and (ii) this Agreement constitutes a valid and binding obligation of Investor enforceable against the Investor in accordance with its terms.

4.11. Advice of Counsel. Investor acknowledges that nay legal counsel for the Company is legal counsel solely for the Company regarding this investment and not for Investor, and that Investor may want to have its own legal counsel review this Agreement (and related materials) before signing. Investor acknowledges that any account firm for the Company is the accounting firm solely for the Company and not for Investor, and that Investor may want to have its own accounting firm review this Agreement (and related materials) before signing.

5. **Notices.** All notices, requests, consents, and other communications hereunder shall be in writing, and shall be mailed (A) if within the United States by first-class registered or certified mail, or nationally recognized overnight express courier, postage prepaid, or by email, or (B) if outside the United States, by International Federal Express or email, and shall be deemed given (i) if delivered by first-class registered or certified mail, three business days after so mailed, (ii) if delivered by nationally recognized overnight carrier, one business day after so mailed, (iii) if delivered by International Federal Express, two business days after so mailed, and (iv) if delivered by email, upon electronic confirmation of its sending and shall be delivered addressed as follows:

(a) If to the Company, to:
[Enter physical address], or
[Enter email address]

(b) If to the Investors, to:
[Enter physical address], or
[Enter email address]

(c) **Entire Agreement and Amendments.** This Agreement may not be modified or amended except pursuant to an instrument in writing signed by the Company and the Investor. Except as otherwise expressly provided herein, this Agreement represents the entire agreement between the Company and the Investor regarding the subject matter hereof and supersedes all prior or contemporaneous communications, promises, and proposals, whether oral, written, or electronic, between them.

(d) **Severability.** If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

(e) **Governing Law.** This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of [State Name], without giving effect to the principles of conflicts of law.

(f) **Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall constitute an original, but all of which, when taken together, shall constitute one instrument and shall become effective when one or more counterparts have been signed by each party hereto and delivered to the other party.

IN WITNESS WHEREOF, this Agreement has been duly executed as of the date first written above.

COMPANY

By: _________________________ *Sign Here*

[Company Representative Name]

INVESTOR:

By: _________________________ *Sign Here*

[Investor Name]