

**SPECIAL ASSET RISK DISCLOSURE  
CANNABIS INDUSTRY**

Forward To: 214 West 9<sup>th</sup> Street  
PO Box 420  
Onaga, KS 66521-0420  
P) 800.521.9897  
F) 913.901.4190  
Purchases@mainstartrust.com

NAME	ACCOUNT NUMBER	DATE

The role of Mainstar Trust as custodian of self-directed accounts is nondiscretionary and/or administrative in nature. In order to purchase or custody Cannabis related assets, including Hemp and CBD oil, Mainstar requires the accountholder to review the information below related to the Cannabis industry risks.

**CANNABIS INDUSTRY RISKS**

- Federal Law. THE POSSESSION, USE, CULTIVATION, MANUFACTURING, SALE AND TRANSFER OF CANNABIS IS ILLEGAL UNDER FEDERAL LAW.** The cannabis industry is currently conducted in those states that have passed laws either decriminalizing or legalizing the use of cannabis for either medicinal or recreational use. However, under United States federal law, the possession, use, cultivation, and transfer of cannabis is illegal. Specifically, the Controlled Substances Act (the "CSA") makes it illegal under federal law to manufacture, distribute or dispense marijuana. 21 U.S.C § 801, et seq. Marijuana and cannabis is a Schedule 1 controlled substance under the CSA. Companies that engage in any form of commerce in the cannabis industry and individuals investing in a cannabis business may be subject to federal criminal prosecution along with civil fines and penalties. The federal, and in some cases state, law enforcement authorities have frequently investigated and/or closed dispensaries, grow operators, manufacturers, and other cannabis-related businesses, Federal enforcement would have a material adverse effect on the business and operations of any company involved in the cannabis industry and could lead to dissolution, asset forfeiture and total loss of investment in such a company.
- State and Local Compliance.** Mainstar Trust has no independent knowledge of whether a company involved in the cannabis industry holds or is required to hold any local or state cannabis licenses or whether such a company can obtain licenses that may be necessary in order for it to pursue its business plan. Permit and License requirements create a host of issues that investors should consider, including but not limited to the following:

  - Limitations on the number of licenses and license types available
  - Rapidly changing laws and regulations
  - Increased regulatory compliance costs and potentially lower gross margins
  - Disclosure of ownership interest to State regulatory agencies
  - Competition
  - Potential changes to business plans, predicted income, or structure of business entities

In addition to developing regulatory systems and local ordinances, cannabis operations must comply with all state laws and regulations as well as local ordinances and codes. Failure to comply with state and local laws and regulations could result in civil penalties, and in some cases criminal prosecution.
- Regulatory Uncertainty.** Cannabis is a new industry in the U.S. and there are divided opinions as to how it should be legalized, if it should be legalized, and how to protect the interests of the general public. As such, a company involved in the Cannabis industry must be prepared for possible changes in laws and regulations which could seriously impact such company's business. Cannabis businesses are at risk as a going concern and will incur ongoing costs and obligations related to regulatory compliance and failure to do so may result in additional costs for corrective measures, penalties, or in restrictions on operations. In addition, changes in regulations, more vigorous enforcement thereof, or other unanticipated events could require extensive changes to operations, increased compliance costs, or give rise to material liabilities, which could have a material adverse effect on the business, results of operations, and financial condition of a company involved in the Cannabis industry.
- Strict Compliance.** State and local jurisdiction cannabis licenses are subject to ongoing compliance and reporting requirements. Failure to comply with the requirements of its licenses or any failure to maintain licenses would have a material adverse impact on the business of a company involved in the Cannabis industry. Should any state decide not to grant, extend, or renew the licenses, or should it renew such licenses on different terms, the business of a company involved in the Cannabis industry could be materially adversely affected.
- Industry Growth and Consolidation.** The cannabis industry is undergoing rapid growth and substantial change, which has resulted in increasing consolidation and formation of strategic relationships. If this consolidation and strategic partnering continues, a company involved in the Cannabis industry could be harmed in a number of ways, including:

  - The loss of strategic relationships if its strategic partners are acquired by or enter into relationships with a competitor
  - The deterioration of the relationships between the company and its strategic partners causing an adverse effect on the company's business
  - The strengthening of the company's current competitors, or the formation of new competitors

Any of these events could put a company involved in the Cannabis industry at a competitive disadvantage, which could cause it to lose customers, revenue and market share. Consolidation could also force such a company to expend greater resources to meet new or additional competitive threats, which could also harm its operating results.

6. **Banking.** On February 14, 2014, the U.S. government issued rules allowing banks to legally provide financial services to state-licensed cannabis businesses. A memorandum issued by the Justice Department to federal prosecutors reiterated guidance previously given, this time to the financial industry that banks can do business with legal cannabis businesses and "may not" be prosecuted. The Treasury Department's Financial Crimes Enforcement Network (FinCEN) issued guidelines to banks that "it is possible to provide financial services" to state-licensed cannabis businesses and still be in compliance with federal anti-money laundering laws. The guidance falls short of the explicit legal authorization that banking industry officials had pushed the government to provide and to date it is not clear what if any banks have, relied on the guidance and taken on legal cannabis companies as clients. Thus, most banks remain unwilling to take deposits, issue credit cards, open bank accounts or assist with payroll services for cannabis businesses. While efforts are underway to address the banking issue, cannabis businesses deal primarily with cash. This presents numerous risks related to security, managing cash flow and the inability to invest funds. Should a company involved in the Cannabis industry have difficulty accessing normal commercial banking services it could harm its operating results.
7. **Food and Drug Administration (FDA).** The FDA does not permit or allow any statement that cannabis or cannabinoid is intended to treat or cure any disease. Research and scientific studies are underway throughout the U.S.; however, no product may make statements of diagnosis, treatment, or cure for any disease without FDA approval.
8. **Bankruptcy.** Federal courts in the United States have held that cannabis businesses are not able to receive protection under bankruptcy laws. It has also been held that owners of cannabis businesses seeking personal bankruptcy protection will also be unable to take advantage of filing for bankruptcy. Therefore, in the event a company involved in the Cannabis industry faces financial trouble, it will not be possible to file for bankruptcy protection without a drastic change in federal law.
9. **Intellectual Property.** The USPTO does not provide trademark protection for cannabis or cannabis-related marks, making it difficult to enforce and protect intellectual property. It is possible to obtain trademarks for brands used in the cannabis industry but only on non-cannabis goods. Some states may issue state trademarks for cannabis-related products, but state trademarks provide significantly less protection than federal trademarks. Patents are also very difficult to receive in the cannabis industry and require complex legal and scientific questions.
10. **Contract Enforceability.** Because the contracts of a company involved in the Cannabis industry involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, such a Company may face difficulties in enforcing its contracts in U.S. federal and certain state courts.
11. **Product Liability Claims.** Insurance law and available products for cannabis operations, and product liability of cannabis, is a major concern for the industry and manufacturers Insurance policies may be limited or claims may be challenged by insurance carriers. While there are insurance companies providing policies for cannabis businesses, many do not cover product liability.
12. **High Effective Tax Rates.** Under Internal Revenue Code Section 280E, cannabis businesses are prohibited from deducting their ordinary and necessary business expenses, except for some "costs of goods sold". This results in cannabis enterprises facing much higher federal tax rates than similar companies in other industries. While opinions differ, experts estimate from 40% to 70% as the effective federal tax rate imposed by Section 280E. In addition, the state and localities may levy various taxes on cannabis operators. In total, the aggregate tax rate for cannabis operations is well above other similar industries. Tax rates and structures (example: gross receipts vs square footage) are rapidly changing and will continue to change in the coming years.

**SIGNATURE**

Mainstar Trust has no responsibility or involvement in selecting or evaluating any investment. It neither endorses nor recommends investment in any asset and does not provide any legal, tax, investment or any other advice with respect to any investment and Issuer agrees to make no representation to the contrary. Issuer further acknowledges that Mainstar Trust acceptance of an asset indicates only that the asset meets the requirements of Mainstar Trust's existing system and procedures and in no way can be construed to be either an endorsement or evaluation of merit or an acknowledgement that the asset has been approved by any regulatory or supervisory body.

\_\_\_\_\_

ACCOUNTHOLDER SIGNATURE

\_\_\_\_\_

DATE