



**LONERIDER SPIRITS
FOUNDERS CLUB**

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1. Introduction and Definitions

The Company

Raleigh has been the home of Lonerider Brewing Company since 2009. Lonerider currently produces several award-winning beers and in the summer of 2019 Lonerider Spirits was spun off from the brewery. Lonerider Spirits currently produces two bourbons finished in sherry casks that have won numerous awards. Lonerider is proud to now introduce The Founders Club to have individual owners of North Carolina bourbon in our distillery.

The officers of the Company are:

Chris Mielke - President

Sumit Vohra - Chairman

Definitions

"Bourbon"

Bourbon's legal definition varies somewhat from country to country, but many trade agreements require that the name "bourbon" be reserved for products made in the United States. The U.S. regulations for labeling and advertising bourbon apply only to products made for consumption within the United States; they do not apply to distilled spirits made for export. Canadian law requires products labeled bourbon to be made in the United States and also to conform to the requirements that apply within the United States. But in countries other than the United States and Canada, products labeled bourbon may not adhere to the same standards. For example, in the European Union, products labeled as bourbon are not required to conform to all the regulations that apply within the United States, although they still must be made in the U.S.

The Federal Standards of Identity for Distilled Spirits state that bourbon made for U.S. consumption must be:

- Produced in the United States
- Made from a grain mixture that is at least 51% corn
- Aged in new, charred virgin white oak containers
- Distilled to no more than 160 (U.S.) proof (80% alcohol by volume)
- Entered into the container for aging at no more than 125 proof (62.5% alcohol by volume)
- Bottled (like other whiskeys) at 80 proof or more (40% alcohol by volume)

For more information see the link [here. https://en.wikipedia.org/wiki/Bourbon whiskey](https://en.wikipedia.org/wiki/Bourbon_whiskey)

"Bourbon Cask"

A bourbon cask or bourbon barrel is a hollow wooden cylindrical container, used to store spirits during the maturation process and prior to bottling. Bourbon casks must be wooden (as set out in the legislation above), but the choice of specific cask is usually taken by the master distiller based on the particular character of the bourbon or to maintain continuity within the distillery or brand. Most casks are oak and will have been previously used to mature oloroso, fine or amontillado sherries or bourbon.

Virgin (un-used) charred white oak barrels must legally be used for bourbon. Aging in other barrels is also common such as French/Spanish Wine casks, Ex Port, Ex Sherry, Olorosso, Ex Pedro Ximinez etc. Lonerider Spirits is offering to transfer and finish the bourbon at any time after a recommended 2 years in a virgin charred white oak barrel (so the bourbon can be labeled "straight") for any of the cask types listed above for a unique flavor.

Lonerider Spirits is unique in offering a barrel maturation in a bourbon barrel that has then been used to store one of Lonerider's award-winning beers. One of the advantages of having a brewery and distillery as partners - investors can choose between a range of beer types depending on the flavor profile they desire in the final bourbon. These types of beer aged bourbons have become very popular due to Jameson Cask Mates project and other similar products. Lonerider Spirits is offering to transfer and finish the bourbon at any time after a recommended 2 years in a virgin charred white oak barrel (so the bourbon can be labeled "straight") in a barrel that held Lonerider beer for a one-of-a-kind taste experience.

"Cask Strength"

Cask strength describes the strength of bourbon (or its ABV) in the cask during maturation. Cask strength bourbon is bourbon bottled at the alcoholic strength at which it is aged in the cask without being diluted with water. Most bottled bourbon is diluted with water to bring its strength down to the statutory minimum (40% ABV for bourbon) or a level that makes it less expensive to produce and more palatable for regular consumers. The degree of dilution can also bring out different flavors of the bourbon, which can affect the decisions of the producers regarding the concentration they select for the bottling of their various brands.

Whiskies bottled at cask strength are usually produced for the upper premium market or as investment assets. High levels of alcohol distillation purity can give the bourbon a lighter (but less rich) flavor.

"Discount Bond"

A discount bond (also called a zero coupon bond) is a bond that is issued for less than its par (or face) value or at a discount to what it is currently trading at in the secondary market. These bonds will only make one payment to the holder (par value at maturity) as opposed to periodic interest payments.

"Subscription Price"

The minimum price of initial investment in the Founders Club (FC) Investment Program.

This is a discounted price per cask of:

- Bourbon \$4,000.00 53 gallons
- French/Spanish Wine finishing \$4,000.00 58 gallons
- Ex Port finishing \$4,300.00 59.5 gallons
- Ex Sherry finishing \$4,500.00 66 gallons
- Olorosso finishing \$4,500.00 66 gallons
- Ex Pedro Ximenez finishing \$4,500.00 66 gallons
- Ex Bourbon Beer finishing \$5,500.00 53 gallons

"CAGR" (Compound Annual Growth Rate)

The annualized or year-on-year growth rate of an investment over time. While investments often do not grow at a constant rate, the compound annual return smooths out returns by assuming constant growth.

It is calculated as: $CAGR = (Ending\ Value / Beginning\ Value)^{(1/n)} - 1$ where n is the length of time of the investment in years.

Bourbon Whiskey Production Process

Mashing and Fermentation

The grist of ground malted or malted and unmalted grain is added to hot water to form the mash. The hot water activates enzymes in the malt which converts the starch in the grains to sugar. After a few hours this watery, sugary soup called wort is cooled and drained into a vessel known as a wash back. Yeast is added converts the sugars in the wort content to alcohol. After several days the sugar has been converted this leaves a beer like substance of about 8% alcohol by volume (ABV) called the Wash.

Distillation into a new make spirit

This wash is then transferred to a copper still called a wash still, distilled and then transferred over to a second still called a spirit still. Only the hearts or center portion of each distillation run goes forward to the second distillation stage. The beginning and end of each distillation run known as the heads and tails are put aside and are recirculated back into the still from where they came. This assists in maintaining consistency of character and flavor from each pot still used. Generally, the early part of the heads run is discarded as it will contain some unwanted and unpleasant compounds.

Maturation into bourbon

The new make spirit is then diluted down with water to a cask strength for aging (normally about 58-65%) The spirit is then filled into charred virgin white oak casks and held for maturation for a minimum of 3 years to and often much longer. This clear spirit will slowly mature into bourbon. The type of wood in the barrels and their previous use if any, contribute in a major way to the character, color, nose and flavor of the bourbon.

Bottling for sale as bourbon

After aging for at least 3 but often up to 15 years, the matured bourbon is again diluted with reverse osmosis water to a drinking strength of about 40% ABV before being bottled for distribution and sale. Sometimes bourbon is left at a "Cask Strength" of 50% to 60% to present a less diluted and more flavorful but stronger drink for aficionados. These cask strength bourbons are generally not recommended for bourbon beginners who will probably find them over powering, expensive and difficult to drink because of their higher alcohol content.

The U.S. Whiskey Market

The bourbon whiskey market is a part of the whiskey market, so the statistics are presented together.

- Sales: \$3.4 billion in 2017.
- Cases: 23.2 million cases sold in 2017.
- Sales of bourbon and Tennessee whiskey are up around 6.7% from 2016, according to the Distilled Spirits Council. Top shelf brands are benefiting the most: From 2007 to 2017, high end premium and super-premium revenues grew by 58% and 25%, respectively.
- Overall, sales of distilled spirits rose 4.5 percent in 2017, to \$26.2 billion. Volume shipments increased 2.6 percent, to 226 million cases. The gains boosted the domestic market share of spirits to 36.6 percent of adult beverages, up 3.7 percentage points since 2009.
- US whiskeys are also setting the export pace, accounting for 68 percent of the total value of \$1.63 billion in domestic distilled spirits shipped overseas last year.
- Millennials continue to be interested in "authentic" consumer products like whiskey.

2. Key Features

The Lonerider Spirits Founders Club is an exclusive opportunity to secure ownership of these limited edition 500 bourbon casks produced by Lonerider Distillery with its award-winning high rye mash bill. These limited-edition casks provide, a seldom seen opportunity to acquire a unique NC bourbon, with numbered casks, limited edition labelling and certificates of authentication. The Lonerider Spirits Founders club maximizes the potential for significant capital appreciation in future as the bourbon matures. The presentation, personalization and provenance of the Lonerider Spirits Founders 500 will be a boastful addition to any bourbon aficionado's collection. In addition to this, Lonerider Spirits is offering an attractive "buy-back" proposal. The investment therefore offers a well above average risk-adjusted return on an investor's initial outlay plus an outstanding alternative asset class to add to any portfolio of wealth.

The Founders Club Proposal

Lonerider Spirits is offering founders club access to full ownership of a limited and unique edition of bourbon casks, containing the it's high rye mash bill that is distilled in North Carolina. The Founders Club Program will offer a maximum of 500 casks of bourbon for aging with initial release in 2025.

Once purchased, the cask owner has absolute title to the cask and its contents, and their name will be branded on the head of the cask. Their cask will be stored for a minimum of five years in a bonded warehouse (or more if the investor wishes), and insured for full replacement cost against any contingency or risk.

Investors may choose to keep the cask for future use (storing it in the bonded or elsewhere) or bottle it on site at Lonerider Spirits locations in NC (at cask strength or reduced strength) and do as they please with their own personalized, limited edition bourbon (for example, keep it as an investment and realize capital appreciation over years to come, resell it or simply consume and enjoy).

Apart from offering the potential for significant price appreciation over the long term, this proposal offers a virtually risk-free investment due to the structuring of a unique buy-back proposal offered by Lonerider Spirits. Casks will be offered to investors in a similar form to discount bonds, with initial entry prices at a substantial discount to the eventual buy-back par value offered by the Distillery at the end of year five.

Casks will be offered to investors at a discounted price ranging from \$4,000.00 per cask. This price includes the relevant cask, the bourbon and its ingredients, the labor of the Master Distiller, plus storage and insurance for the five-year period. The proposal therefore offers investors a virtually risk-free return of 4% p.a. In other words, on maturation, Lonerider Spirits offers to execute the right to buy the cask back at the predetermined agreed value, offering investors a minimum 4% annually compounded return on their initial purchase.

For Example: If founders club investors agree to execute the offer agreement in 5 years after fill date for the minimum value, they will receive \$4,868.00 in cash with the difference between this sum and their initial investment (of \$4,000.00) retained as their profit. This return equates to a CAGR of 4% per year or a total gross return of 21.7% for the five-year period.

The aims of the FC is to offer a unique opportunity to a limited number of investors while raising capital which will enable the Distillery to build a larger inventory for future years and to further expand the brand.

3. Subscriptions and Redemptions

Entry

- The subscription price or minimum investment is 4,000.00 per bourbon cask (other cask finishing prices vary by type)
- There is no maximum investment, but casks are strictly limited to 500 only on a first come first served basis.
- The minimum term for investors is five years.
- Applications should be made in writing by completing the application form at the end of this document and forwarding it by email or via mail to the address set out in the Application Form.

Exit and Redemption

Investors in the Founders Club Investment Program will have four options for exit:

1. Bottle On Site

Investors may choose to have the contents of their personalized bourbon casks bottled on site by Lonerider Spirits. These unique and special edition bottles of bourbon could be then kept for future investment, resold with proper permits, exported or consumed.

Table 1 below shows the potential costs and results in choosing this option. Please note this is a sample calculation, using Bourbon casks; bourbon casks are handmade and can vary slightly in size.

The original contents of the bourbon in the cask are 58.9% ABV from the distilling process, giving a 100% equivalent of 53 gallons per cask. Estimated evaporation of the bourbon while in-situ (called the "angels share") is approximately 24% over 5 years, reducing the contents to 40.5 gallons by the end of year five @ 58.9% ABV.

Investors can choose to bottle the bourbon at "cask strength" (58.9% ABV as recommended by the Master Distiller), or add reverse osmosis water to reduce its strength for bottling to 40% ABV.

The cost of this premium limited-edition bourbon per bottle, in its own distinctive Founders Club bottle, with unique labels (including the individual bottle number and investor's name) and factoring in the initial cask investment is just \$41.92 cask strength or \$30.73 at regular retail strength, 40% abv.

However, if investors choose to bottle the bourbon in North Carolina - taxes need to be added. These charges are also outlined in Table 1.

Table 1. Sample Costs and Prices to Bottle-On- Site

● (Discounted) Cost per Cask (Bourbon)	\$4,000.00
● Price for Investors per gallon	\$66.03
● Original Contents (gallons) at 58.9% ABV	53 gallons
● Evaporation (gallons) at 10% for the first year and 4% each year thereafter	12.5 gallons
● Year 5 bulk (gallons)	40.5 gallons

1. Cask Strength (58.9% ABV) (est)

● No. of gallons @ 58.9% ABV	40.5 gallons
● No. of 750 ml bottles at cask strength	200
● Bottling and labelling (\$7.50 per bottle)	\$1,500.00
● Costs per cask including bottling	\$5,500.00
● Cost per 750 ml labelled bottle @ 58.9% ABV	\$27.50
● NC State Excise Taxes per bottle	\$13.79
● Federal Excise Taxes per bottle	\$0.63
● Cost price per bottle including fed/state taxes	\$41.92

2. Suggested regular bottling strength (est)

● No. of gallons @ 40% ABV	59.2 gallons
● No. of 750 ml bottles at 40% ABV	298
● Bottling and labelling (\$7.50 per bottle)	\$2,235.00
● Costs per Cask Including Bottling	\$6,235.00
● Cost per 750 ml labelled bottle @ 40% ABV	\$20.92
● NC State Excise Taxes per bottle	\$9.38
● Federal taxes per bottle	\$0.43
● Cost price per bottle including fed/state taxes	\$30.73

2. Cask Exit

The second option for exit is for investors to take their complete and intact cask at the end of year five, and keep it for future bottling, reselling, investment or export. When mature at 5 years, cask owners may choose to either take ownership of the cask, removing it from the bonded warehouse and reselling it at a potentially appreciated value.

3. Continue to mature the spirit for \$100 per annum or 1.1% of the cask value after 5 years

Investors may choose to keep the cask at the bonded warehouse for a longer period to allow it to mature further before bottling, with some additional charges for storage and insurance. (These are currently estimated at \$100 per year per cask or 1.1% of the cask's market value after year five – the sample based on bourbon casks.)

4. Exit via the Buy-Back Proposal

Lonerider Spirits is committed to paying investors the full price of the cask 5 years from date of cask fill. This repayment entitles investors to a CAGR of 4% per year or a total gross return of 21.7% for the five-year period:

Cask Type	First Fill Discount Price	Buy Back Price
● Bourbon	\$4,000.00	\$4,868.00
● French/Spanish Wine finishing	\$4,000.00	\$4,868.00
● Ex Port finishing	\$4,300.00	\$5,233.10
● Ex Sherry finishing	\$4,500.00	\$5,476.50
● Olorosso finishing	\$4,500.00	\$5,476.50
● Ex Pedro Ximinez finishing	\$4,500.00	\$5,476.50
● Ex Bourbon Beer finishing	\$5,500.00	\$6,990.75

Risks of Lonerider Spirits Founders Club Proposal

While the price appreciation of bourbon in the future cannot be known or guaranteed, the Buy Back Proposal substantially limits the downside risk for investors and provides a valuable exit opportunity with substantial returns.

The remaining risks associated with the Founders Club Investment Program include:

Limited Trading History

Although Lonerider Spirits has been operating successfully since 2018, the Founders Club is a new venture launched in August 2019. Lonerider Spirits has been producing a super-premium bourbon (Lonerider Sherry Cask Finish Bourbon) which is currently available in over 265 ABC stores in North Carolina. Potential investors should consider the Company's prospects in light of the risks associated with companies in their early inception and launch stages.

On admission, the price of the Founders Club proposal will be less than the redemption price in year five. Should a significant number of investors avail of the Buy-Back Proposal; the company will need to achieve sufficient revenues and capital growth in order to execute payments at that time.

Insurance

Insurance cover will be provided to cover direct physical loss or physical damage of the bourbon in storage. Details on application.

Additional Information

Terms and conditions -

1. On receipt of a completed and signed application form and full payment for the ordered Founders Club Cask(s), the title for the cask(s) will transfer to the named Purchaser.
2. Title to the purchased casks will lie with the Purchaser. Any subsequent transfer or assignment of title must be notified to Lonerider Spirits in writing.
3. A receipt, a copy of the countersigned application form will be issued to the Purchaser on completion of the order and will issue when the cask is filled.
4. Each cask ordered will be filled with bourbon, 58.9% ABV at the time of filling. The casks will be warehoused under bond the Distiller and the Purchaser having agreed the terms herein.
5. Production will begin when 20 barrels have been purchased by investors due to the volume needed for a spirit run. If there are not enough investors the purchaser will have an option of purchasing shares in Lonerider Spirits, LLC or having their money refunded.
6. Prices include warehousing for 5 years but excludes any state or federal taxes.
7. A payment proposal may be offered on application; however, title to the cask(s) will not transfer until full payment has been received. Payment proposal customers will not be entitled to benefit from the "Buy Back Proposal".
8. All Casks are insured against fire, theft and spoilage.
9. The minimum term for investors is 5 years. Founders Club casks will remain under bond for a minimum of 5 years. Taxes and duties are payable on removal from bond.
10. The Purchaser is obliged to give one (1) months advance notice to the Distillery before removing their cask(s) from bond. Normal bonded warehouse procedures apply
11. The Purchaser is solely responsible for any state and federal taxes by the removal of any cask(s) from bond.
12. Maturity for the Founders Club Cask will be defined as 5 calendar years from the date of filling of the purchased Cask(s).

13. The Distillery must be given six (6) months prior notice in writing if the Purchaser intends to avail of the Founders Club "Buy Back Proposal" as outlined in the prospectus. The "Buy Back Proposal " option shall be available to the Purchaser for six (6) months from the maturity date of the cask(s).

14. Continuance of warehousing will be provided by arrangement. For each additional year's warehousing, the purchase will be charged 1.1% of the market value per cask (maximum of 10 years).

15. The Purchaser may choose to have their cask(s) bottled five (5) years from the filling date of the cask(s). Prices outlined in the prospectus.

16. All bottled Founders Club Bourbon, (whether in standard or personalized bottles), must have attached a label which displays Lonerider Spirits and Founders Club logotypes and a clear statement of origin.