LEGAL OPINION

THE PROJECT: PRIVATEUM GLOBAL PLATFORM

Legal Kornet

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THE PRIVATEUM GLOBAL PROJECT

To	Družstvo PRIVATEUM GLOBAL	From	Legal Kornet OÜ
Attention	Karen Abrahamyan	Date	March 30, 2023
Subject	Regulatory advice on PRI	Client	Družstvo PRIVATEUM GLOBAL

I. Introduction

We have been instructed by Družstvo PRIVATEUM GLOBAL, a company incorporated under the laws of the Czech Republic **("Company")**, which is the founder of the Privateum Global **("Project")**, to issue this legal opinion to advise whether the PRI tokens **("Tokens")** issued by the Company can be considered as a security under the United States Federal Securities Laws.

We have not considered any other issues, other than that as set out at the paragraph above, and in particular we will not be aware of the status of any future rights and features that may be added to or removed from the Tokens, and have also not conducted any independent enquires or due diligence in respect of the operation of the Company (or its affiliates). This legal opinion is based on the United States Federal Securities Laws as at the date hereof and must not be read as extending, by implication or otherwise, to any other matter.

This legal opinion should be read together with the appendixes attached hereto, which form an integral part of this legal opinion.

In rendering this legal opinion, we have made the assumptions (without enquiry) as set out in Appendix 1 of this legal opinion **("Assumptions")**.

This legal opinion is also subject to the qualifications as indicated in Appendix 2 of this legal opinion **("Qualifications")**.

When issuing this legal opinion, we also relied on the reliability of the Representation and Guaranties as stipulated in Appendix 3 of this legal opinion **("Legal Representation and Guaranties")**.

II. Legal Framework

A. Security Law

Congress enacted the Securities Act of 1933 (**"Securities Act"** or **"Security Law"**) to regulate the offer and sale of securities. The Securities Act establishes a set of requirements with the aim to provide investors with the opportunity to make an informed decision as well as to eliminate information asymmetry between the promoters and investors. Among these requirements are such as:

- To register offers and sales of the securities to the public with the SEC.
- To disclose material information about the issuer, its affiliates, and the securities, including financial and management information, as well as risks affecting the project.
- To make periodic public disclosures, including significant events and annual reports.

The definition of a *"security"* under the Securities Act includes a wide range of forms. Within the framework of this legal opinion, we will consider such investment vehicle as *"investment contract."* The law and law enforcement practice have formed an approach according to which an investment contract is understood as investment of money in a common enterprise with an expectation of profits derived solely from the managerial efforts of others.

As the United States Supreme Court noted in SEC v. W.J. Howey Co., Congress defined *"security"* broadly to embody a "*flexible rather than a static principle, one that is capable of adaptation to meet the countless and variable schemes devised by those who seek the use of the money of others on the promise of profits."*

The courts further have established that, subject to certain conditions, investment contracts can even be recognized as transactions where the assets are the orange groves, exclusive drinks, and the shares in virtual enterprises.

B. Security Law for Blockchain Tokens in Light of SEC Report

In re SEC v C.M. Joiner Leasing Corp., 320 U.S..344, 351 (1943), it is established that:

"The reach of the Securities Act does not stop with the obvious and commonplace. Novel, uncommon, or regular devices, whatever they appear to be, are also reached if it be proved as a matter of fact that they were widely offered or dealt in under terms or courses of dealing which established their character in commerce as "investment contract", or any interest or instrument commonly known as security."

The same was held in Reves v. Ernst and Young, 494 U.S. 56, 61 (1990):

"Congress purpose in enacting the securities laws was to regulate investments, in whatever form they are made and whatever name they are called."

The US Securities and Exchange Commission **("Commission"** or "**SEC")** adheres to this position and declares that any new forms of investments via smart contracts or blockchain technology fall under the purview of US federal securities laws and on July 25, 2017, it issued a Section 21(a) investigative report, Release No. 81207, on investigation of DAO case. Among others, the aforementioned SEC report distinguishes projects where tokens represent securities as described above.

Hence, in this analysis, we shall investigate and provide our legal opinion as to whether the Token is a type of an investment vehicle that triggers relevant federal security law provisions of the United States.

III. Findings of Fact

We begin our legal analysis by providing information about the facts related to the Project and the Tokens. At this stage, our goal is to identify and describe the facts that will allow us to understand the model underlying the Project as well as the nature of the Tokens.

Investigating the facts, we take into account the position of the US courts that form should be disregarded for substance and the emphasis should be on economic reality.

Having said that, we note that our findings of facts are limited to the Company's instructions and the scope of this legal opinion, as indicated in section I *[Introduction]* of this legal opinion.

A. White Paper

For the purposes of this legal opinion, we have examined the White Paper (**"WP"**) *(Appendix 4 hereto)* submitted to us by the Company and posted on the Project website at https://www.privateum.com.

According to the WP:

- The Platform is based on a cooperative business model that allows to ensure the security of transactions, organize the search for reliable and trusted partners, and set a low level of fees for transactions.

  "Privateum is the only Secure, Global, Safe and Sustainable financial cooperative Platform Owned by its Members, which provides privacy and legal protection to its members."

  "We are building a legally protected Fintech platform based on a Cooperative Business Model and Consortium Blockchain Architecture, which is designed to integrate global businesses, services, and consumers."

- Using the advantages of a cooperative form, Privateum Global unites various producers and consumers of goods and services from all over the world within one Platform. Thus, the participants of the Platform are given the opportunity to buy and sell goods and services provided by other participants of Privateum Global on favorable terms.

  The Project ecosystem provides various companies and enterprises with the opportunity to connect to a single platform and effectively use it, excluding such restrictions as high tax fees, legal restrictions, poor quality of goods, lack of privacy and security.

  "Privateum Global Cooperative international consortium, allows exchange of high quality services and goods using internal stable tokens with extremely low fees or no fees at all based on type of an operation."

- The Project ecosystem includes a number of products developed by the Company to organize convenient, safe and mutually beneficial user interaction. According to WP Project participants will be able to make transactions in any country in the world and store cryptocurrencies.

  "Global business expansion by removing lots of bureaucratic hurdles and easy cooperation between producers and consumers both locally and globally."

  "Business and user verification will guard against illegal activities"

- The Company seeks to support the activity of the Platform participants. To increase the number of transactions and expand the popularity of Privateum Global, the Company uses the Patronage program. Thanks to the Patronage program, the Company pays rewards to the most active participants of the Platform. User activity is evaluated based on the number of transactions for the purchase or sale of goods or services within the Platform.

  The fund from which the Company takes funds to reward active users is formed from the Platform's income from advertising, the sale of private goods and services, as well as from membership fees for registration and subscription.

"Patronage rewards are bonuses distributed among the participants of the Platform in accordance with the volume of their activity within the Project such as buying or selling goods or services within the Platform, participation in voting, swapping PRI, etc."

- In connection with the Project, the Company has distributed/will distribute a fixed number of the Tokens.

- The Tokens can be practically used as follows:

  - The Token can be used by PRI holders as the currency of the payment structure built into Privateum Global. According to the information presented in the White Paper and on the official website of the Project, the use of the PRI Token in transactions provides users with certain advantages, such as security of transactions, protection against money laundering and access to profitable offers.

    Privateum Global participants can use the PRI Token to pay for goods and services sold by other users in the Marketplace operating within the Platform.

    "Our platform's centerpiece is the PRI token, which serves as the entrance ticket to the marketplace. Buyers can easily pay for products and services, while merchants can accept payments worldwide."

  - PRI Tokens can be used by holders to participate in the management of the Platform. The participation of users in solving some issues related to the current work of the Project and the future development of Privateum Global will be carried out through voting.

    "By getting PRI crypto token the owner is unlocking a number of new possibilities including:

    - Getting access to the network of people and selling goods worldwide

    - Participation in making some decisions related to the future development of the project."

- PRI Token holders may use the Token to participate in "Proof of Stake" remuneration program ("staking") available within the Privateum Global Platform. (More information about staking can be found in paragraph (C) of section V [*Analysis Under the Howey Test*] of this legal opinion).

- Analysis of the WP (in connection with the information from the sources specified in paragraphs 2 and 3 of this section III [*Findings of Fact*] of the legal opinion) allows us to draw a conclusion about the role of the founders in the current work and development of the Project. We believe that the founders are a separate category of users of the Project who have certain rights and obligations in relation to the Project.

  At the time of preparing the legal opinion, the Project is at the final stage of development, some of the functions have already been launched and are available to interested users. Describing the role of the founders, we can assess their contribution and the amount of work at the stage of development of the Project. Thus, at the development stage of Privateum Global, the founders are primarily concerned with organizational and technical issues related to the registration of the Company, the development of the Project ecosystem and the concept of the Token. In particular, the founders negotiate with third parties to establish cooperation, develop a set of functions and capabilities of the Project and the Token, maintain the security of transactions within the Project and carry out marketing work.

  In addition, at the time of preparation of the legal opinion, the founders maintain the operation of the official website of the Project (link: https://www.privateum.com) and publish the current version of WP and other documents related to the work of Privateum Global.

  At the current stage the Project is already operational and some of the features which have a consumer value are already available for the owner of the Tokens. As more and more features will be available for the owners of the Tokens the less will be the role of the founders. But we believe that even at the current stage the Project might be further developed without assistance of the founders of the Project.

- According to the information provided on the official website of the Project, Privateum Global identifies two main categories of users. The first category includes entrepreneurs and companies interested in selling their goods and services on favorable terms.

Thanks to the features and capabilities of Privateum Global, both large and small companies can get an equal opportunity to start developing a business with minimal investment.

The second category of users of the Platform are individuals. They can also sell their goods and services, as well as buy goods and services of other participants of the Platform. Privateum Global provides them with a wide range of opportunities to buy and sell goods and services of merchants from different countries.

The Company provides all categories of participants with the security of transactions, a low level of commission fees and a reliable platform for interaction.

"Privateum Global Co-Op enables individuals and businesses to achieve financial freedom"

Analysis of the White Paper (in connection with the information from the sources specified in paragraphs 2 and 3 of this section III *[Findings of Fact]* of the legal opinion) allows us to conclude that all users of the Project are actively involved in the operation/development of the Project, since the more people become users of the Project, the more complex and flexible the Project becomes. This finding also applies to the Project mechanism. At the same time, users performing transactions using the Tokens and the Project can determine its shortcomings and functions, which, in turn, may affect the further development and improvement of the Project.

Obviously, no legal opinion on the Howey Test may obviate the token analysis and we will scrutinize it not only in this part hereof. Just ensuring a practical use at the time of launch is insufficient to exempt the token from the securities laws. However, we describe what we have in our case.

B. Statements of Facts

In preparation for our legal analysis, we asked the Company to answer a number of questions concerning the basic features of the Project and the Tokens. We also asked the Company to issue these answers in the form of Statements of Facts *(Appendix 5 hereto)* **("Statements of Facts")**, which we provide below.

According to the Statements of Facts, as at the date hereof:

- The Company has started selling Tokens.
- The Project is at the final stage of development and will be launched in the near future.
- Token holders can exercise real and substantial control over the Project through voting.
- The Company does not promise any ownership or equity interest in a legal entity, including a general partnership.
- The founders of the Project retain a stake in the Project.
- The Tokens are marketed to a specific group of potential users of the Project.
- It is assumed that the Tokens are primarily held in amounts needed for expected use.
- The Tokens can be practically used in the Project.
- The Company does not promise any passive income or dividend distribution.
- The Company sells/will sell the Tokens to general public, not to sophisticated investors.
- The marketing materials distributed do not contain any information about how the Tokens can be used for profit.
- The amount of benefits, which can be obtained by the users of the Project, depends on their own actions/amount of spending.
- The community takes a central role in development and growth of the Project.
- The Project is sufficiently decentralized so the Token holders would no longer reasonably expect the founders of the Project to carry out essential managerial efforts.

- The Company does not plan to support the secondary market for the Tokens.

Further in the text of this legal opinion, the WP and the Statements of Facts are also collectively referred to as the **"Project Documents"**.

Considering that, as at the date hereof, we are not aware of any circumstances giving a reason to assume that the Project Documents contain incomplete and/or inaccurate and/or misleading information, our legal opinion is based on the information contained in the Project Documents.

The Company is exclusively responsible for the preparation and fair presentation of the Project Documents in accordance with the applicable laws. This legal opinion has no objective to obtain a reasonable assurance about whether the Project Documents as a whole are free from material misstatement, whether due to fraud or error. Under no circumstances will we be liable if the information contained in the Project Documents, in full or in any part, is incomplete and/or inaccurate and/or misleading.

IV. Law Enforcement Practice

Further in this section IV [*Law Enforcement Practice*] of the legal opinion, we provide references to legislation and key law enforcement practice, on the basis of which, *inter alia*, we analyzed the facts specified in section III [*Findings of Fact*] of this legal opinion and evaluated them in accordance with the elements of the Howey Test as specified in section V [*Analysis Under the Howey Test*] of this legal opinion.

A. The Howey Test and Its Adoption by the Federal Courts (will be analyzed further in the case)

In accordance with Section 2(a)(1) of the Securities Act, a security is:

"any note, stock, treasury stock, security future, security-based swap, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement … investment contract … or, in general, any interest or instrument commonly known as a 'security,' or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing."

The federal Exchange and Securities Acts tend to control issuing of securities and to confirm particular interests attached to them. However, the Securities Act promotes a priority of the substance over the form. Therefore, if the Commission reveals any type of cooperation promising any future profits merely out of signing particular contract, it may investigate the case and declare this contract a security. Under such circumstances, promoters of such instrument shall disclose particular information and submit it to the SEC.

The Supreme Court case for determining whether an instrument meets the definition of a security is SEC v. Howey, 328 U.S. 293 (1946). In that case, a promoter offered to purchase certain services (cultivation of land) for the fixed price and cost of services. The promoter was delegated to distribute the net profits derived from the sale of fertile land among the holders of land plots during the harvesting period. There were only 42 investors interested in purchasing the land.

The Court construes the *"investment contract"* term within the definition of a security and notes that it has been used to classify those instruments that are of a *"more variable character"* that may be considered as a form of *"contract, transaction, or scheme whereby an investor lays out money in a way intended to secure income or profit from its employment."* 11 Howey, 328 U.S. at 298; Golden v. Garafolo, 678 F.2d 1139, 1144 (2d. Cir. 1982).

More specifically, the court comes to the conclusion that the contract between the promoter and investor constitutes an investment contract. The court explains the definition of the security transaction as follows:

"a contract, transaction or scheme whereby a person invests his money in a common enterprise and is led to expect profits solely from the efforts of the promoter or a third party."

Moreover, the court said that this definition was "*crystallized*" in the state courts cases long before adoption of the federal act. The Supreme Court continues that the term

"had been broadly construed by state courts so as to afford the investing public a full measure of protection. Form was disregarded for substance and emphasis was placed on economic reality."

The Court stated that its definition of investment contracts

"embodies a flexible rather than a static principle, one that is capable of adaptation to meet the countless and variable schemes devised by those who seek the use of the money of others on the promise of profits."

Eventually, to determine that this is an investment contract, the court has to establish that the following applies: (i) *investment of money*; (ii) *common enterprise*; (iii) *expectation of profits*; (iv) *solely from the efforts of others* (e.g., from a promoter or third party).

With regard to the first prong *"investment of money"*, there is no basis for disagreement. The only issue that may arise here is whether cryptocurrency may constitute viable consideration interest in lieu of the obtained interests attached to the token. This issue is addressed by the Supreme Court itself holding that the first prong requires only

"tangible and definable consideration in return for an interest that had substantially the characteristics of a security."

One of the legal issues related to the "*investment of money*" criterion, related to blockchain technologies, is that there could be smart contracts that are acting autonomously and independently: cryptocurrency may be transferred under one contract while tokens, in lieu thereof, will be transferred ("*airdropped*") under another smart contract.

However, the Supreme Court fails to specify the definition of a common enterprise. Federal Court developed two different concepts to analyze underlying contractual relationships of the parties. The first doctrine is "*horizontal commonality"* and the second is "*vertical commonality."*

Horizontal commonality is found when a) investors' contributions are pooled together (and according to some courts, there is a pro rata sharing of profits) and b) the fortune of each investor depends on the success of the overall enterprise.

In contrast, vertical commonality presupposes that common enterprise may be found where the investors' fortune is dependent on the expertise of the promoter or third parties. In case of narrow vertical commonality, investors' profits shall be tied to the profits of promoters.

It is not necessary that the funds of investors are pooled; what must be shown is that the fortunes of the investors are linked with those of the promoters, thereby establishing the requisite element of vertical commonality. Thus, a common enterprise exists if a direct correlation has been established between success or failure of the promoter's efforts and success or failure of the investment.

According to this view, the test is satisfied if the promoter and the investor are both exposed to risk and the profits and losses of investor and promoter are correlated.

In broad vertical commonality, investors' success depends on the efficacy of the managers or third parties. Both the Fifth Circuit and the Eleventh Circuit follow this view. If the investor relies on the promoter's expertise, then the transaction or scheme represents a common enterprise and satisfies the second prong of the Howey Test.

As mentioned above, the circuits now disagree over the term *"common enterprise."*

The third prong is an *"expectation of profit derived from the entrepreneurial or managerial efforts of others."* Analyzing this prong, courts consider whether potential investors expect to receive profits 1) from their own efforts (use of rights or services obtained from promoters) or 2) from the efforts (managerial expertise) of the founders.

Even though in re Howey, the Court used the phrase "solely" from the efforts of others, the lower courts relaxed this prong, adopting concepts of "*undeniably significant"* or "*predominantly*" (Rivanna Trawlers Unlimited v. Thompson Trawlers, Inc., 840 F.2d 236, 240 n.4 (4th Cir. 1988) SEC v. Life Partners, Inc., 87 F.3d 536, 545 (D.C. Cir. 1996); SEC v. Int'l Loan Network, Inc., 968 F.2d 1304, 1308 (D.C. Cir. 1992). SEC v. Koscot Interplanetary, Inc., 497 F.2d 473, 483 (5th Cir. 1974) (quoting SEC v. Glenn W. Turner Enters., Inc., 474 F.2d 476, 482 (9th Cir. 1973).

In United Housing Foundation, Inc. v. Forman, the Supreme Court stated, *"The touchstone is the presence of an investment in a common venture premised on a reasonable expectation of profits to be derived from the entrepreneurial or managerial efforts of others."* 421 U.S. 837, 852 (1975).

Since that time, some courts are investigating whether there is *de minimis* efforts of investors and whether efforts of them are insubstantial factor for the investor to participate in the contract.

Other courts check whether the efforts of offerors of the contract are predominant and more significant in comparison with those of investors in light of future expectation of profits or whether efforts of those other than the investors are *"the undeniably significant ones."*

Finally, some courts hold that the fourth prong is satisfied when the expectations of profits derive from the managerial and entrepreneurial efforts of the offerors, *"in unspecified measure and unspecified comparative weight as to the relative significance with investors' efforts and offerors' or third parties' efforts."*

B. Considerations of DAO Case by the SEC

Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934: the DAO (hereinafter the **"DAO case"** or **"Report"** or **"Investigation"**) is the first investigation of the Commission in attempt to provide the ICO market with an interpretation or application of the US Security regulations (Securities Act of 1933) to a new paradigm of decentralized economy with the *"rule of code."*

"The investigation raised questions regarding the application of the U.S. federal securities laws to the offer and sale of DAO Tokens, including the threshold question whether DAO Tokens are securities. Based on the investigation, and under the facts presented, the Commission has determined that DAO Tokens are securities under the Securities Act of 1933 ("Securities Act") and the Securities Exchange Act of 1934 ("Exchange Act")."

The Report revealed that tokens introduced by the DAO were security instruments, hence being subject to the federal securities laws. Among others, the Report claims that blockchain technology-based securities must be registered unless a valid exemption applies. Those participating in unregistered offerings may be liable for violations of the securities laws.

The Commission confidently stresses that federal law shall be equally applied both to conventional corporations issuing investment instruments and to virtual structures such as decentralized autonomous organizations—the DAO.

The four cornerstones formed by US judicial law shall be intact. And in this regard, the Report looks at the DAO Token through the prism of four elements of the well-known Howey Test: investment of money in a common enterprise for the expectation of profits solely from the managerial efforts of others.

As it is stated in the Investigation:

"This Report reiterates these fundamental principles of the U.S. federal securities laws and describes their applicability to a new paradigm—virtual organizations or capital raising entities that use distributed ledger or blockchain technology to facilitate capital raising and/or investment and the related offer and sale of securities.

The automation of certain functions through this technology, "smart contracts"or computer code, does not remove conduct from the purview of the U.S. federal securities laws. This Report also serves to stress the obligation to comply with the registration provisions of the federal securities laws with respect to products and platforms involving emerging technologies and new investor interfaces."

Without any doubt, DAOs have dramatic effect on legal reasoning as to whether a token is a security instrument. This Legal Opinion is not an exception, as it will apply conclusions of the Commission and the four-prong test.

It is clearly stated in the Report that registration of securities is required for the purposes of full disclosure of information to the investors. Such disclosure enables purchasers to make a considerable decision and facilitates legal scrutiny for investor protection.

Section 5 of the Securities Act declares:

"The registration provisions of the Securities Act contemplate that the offer or sale of securities to the public must be accompanied by the "full and fair disclosure" afforded by registration with the Commission and delivery of a statutory prospectus containing information necessary to enable prospective purchasers to make an informed investment decision. Registration entails disclosure of detailed "information about the issuer's financial condition, the identity and background of management, and the price and amount of securities to be offered …"

The DAO is a drastic example that was used by the founders as a representation of a "virtual" organization incorporated in a form of a code. The DAO was thought as a for-profit organization that emits tokens to investors in order to form a set of assets that would be then used to fund "projects."

Prospective holders of DAO tokens are supposed to share earnings from these projects as a return on their investment in DAO tokens. In addition, DAO token holders can monetize their investments re-selling tokens on a number of web-based platforms that support secondary trading in the DAO Tokens.

"DAO Token holders were not restricted from re-selling DAO Tokens acquired in the offering, and DAO Token holders could sell their DAO Tokens in a variety of ways in the secondary market and thereby monetize their investment as discussed below. Prior to the Offering Period, Slock.it solicited at least one U.S. web-based platform to trade DAO Tokens on its system and, at the time of the offering, The DAO Website and other promotional materials disseminated by Slock.it included representations that DAO Tokens would be available for secondary market trading after the Offering Period via several platforms.

During the Offering Period and afterwards, the Platforms posted notices on their own websites and on social media that each planned to support secondary market trading of DAO Tokens."

"For example, customers of each Platform could buy or sell DAO Tokens by entering a market order on the Platform's system, which would then match with orders from other customers residing on the system. Each Platform's system would automatically execute these orders based on pre-programmed order interaction protocols established by the Platform."

DAO construction was built in a way to allow any DAO token holder to have a vote right for a project that would promise certain investment returns. Each action of a token holder was executed via a smart contract.

"According to the White Paper, in order for a project to be considered for funding with "a DAO [Entity]'s [ETH]," a "Contractor" first must submit a proposal to the DAO Entity. Specifically, DAO Token holders expected Contractors to submit proposals for projects that could provide DAO Token holders returns on their investments. Submitting a proposal to The DAO involved: (1) writing a smart contract, and then deploying and publishing it on the public ledger."

The Report starts its legal analysis by applying each element of the Howey Test. The first one is straightforward. Each DAO participant invests a certain amount of funds to acquire tokens that would provide him with ownership rights and the right to vote in a project that promises to be profitable. Hence, the Commission finds the first element of the Howey Test to be satisfied.

"In exchange for ETH, The DAO created DAO Tokens (proportional to the amount of ETH paid) that were then assigned to the Ethereum Blockchain address of the person or entity remitting the ETH. A DAO Token granted the DAO Token holder certain voting and ownership rights. According to promotional materials, the DAO would earn profits by funding projects that would provide DAO Token holders a return on investment."

The second element was found to be positive as well since the DAO was clear in its intentions and provided on its website information on the for-profit purpose of organization.

"[P]rofits" include "dividends, other periodic payments, or the increased value of the investment," Edwards, 540 U.S. at 394. As described above, the various promotional materials disseminated by Slock.it and its cofounders informed investors that The DAO was a for-profit entity whose objective was to fund 12 projects in exchange for a return on investment. The ETH was pooled and available to The DAO to fund projects."

The final element has been met as token holders were fully reliant on the actions of third parties.

"Investors in The DAO reasonably expected Slock.it and its co-founders, and The DAO's Curators, to provide significant managerial efforts after The DAO's launch. The expertise of The DAO's creators and Curators was critical in monitoring the operation of The DAO, safeguarding investor funds, and determining whether proposed contracts should be put for a vote."

C. Consideration of Munchee Case by the SEC

After the DAO Report, the next case of a paramount importance is the cease-and-desist order (hereinafter the **"Order"**) against a Californian corporation, Munchee Inc. (hereinafter **"Munchee"**) where the latter was declared to be a company that organized the unregistered sale of security instruments.

After the Howey Test scrutiny, the Commission found that Munchee tokens did not satisfy the third and fourth element of the test. The SEC implications in Munchee's Order has a long-standing effect on the legal reasoning applied to the tokens of any ICO project.

Thereby the SEC has sent a clear message that it will take substantial approach to any ICO project.

That said, factual actions of a company may implicate that tokens are considered to be traded on a secondary market. For instance, if it is marketed beyond the targeted audience or burned for its price appreciation or endorsed for third-party statements on token attraction for investment purposes. All these factors, though not being explicitly stated, shall be weighted in every ICO project, and in this Legal Opinion we analyze this fact pattern also.

Munchee created an iPhone application for people to review restaurant meals. In October and November 2017, Munchee launched an offer of the digital tokens (hereinafter **"MUN"** or **"MUN token"**) to be issued on a blockchain.

Munchee offered MUN tokens to raise about $15 million in cash so that it could, firstly, improve its existing application and, secondly, recruit application users (restaurants) to purchase advertisements, write reviews, post photographs or to buy food and conduct other transactions using MUN. The company communicated through its website, a white paper, and other means that it would use the proceeds to create the platform.

The SEC has investigated in the Order that in the white paper Munchee ensured investors that token shall be listed on several prominent US exchange markets or at least it will take all reasonable steps for that. Then, the trade has occurred far beyond the US while the visitors of the restaurants were in California.

What is more, Munchee declared support of token price appreciation. Hence, any prospective token holder may reasonably believe that their investments in tokens can generate a considerable profit. The following is stated in the Order by the SEC:

"In the MUN White Paper, Munchee stated that it would work to ensure that MUN holders would be able to sell their MUN tokens on secondary markets, saying that "Munchee will ensure that MUN token is available on a number of exchanges in varying jurisdictions to ensure that this is an option for all token-holders."

"Munchee represented that MUN tokens would be available for trading on at least one U.S.-based exchange within 30 days of the conclusion of the offering. It also stated that Munchee would buy or sell MUN tokens using its retained holdings in order to ensure there was a liquid secondary market in MUN tokens."

In the white paper, Munchee has tried to persuade investors that it would run its business in a way that would cause MUN tokens to rise in value. The so-called platform is structured to burn tokens taking them out of circulation and thereby raising their price. Or, in another case, it was stated in the white paper that the holder of more tokens would be rewarded with a major number of tokens.

Besides that, the SEC defined that despite of Munchee statements in the white paper, no economic circulation has finally occurred within the platform. Thereby, it may be concluded that Munchee artificially intensified appreciation of token value. The following is stated in the Order of the Commission:

"In the MUN White Paper, on the Munchee Website and elsewhere, Munchee and its agents further emphasized that the company would run its business in ways that would cause MUN tokens to rise in value. First, Munchee described a "tier" plan in which the amount it would pay for a Munchee App review would depend on the amount of the author's holdings of MUN tokens.

For example, a "Diamond Level" holder having at least 300 MUN tokens would be paid more for a 5 review than a "Gold Level" holder having only 200 MUN tokens. Also, Munchee said it could or would "burn" MUN tokens in the future when restaurants pay for advertising with MUN tokens, thereby taking MUN tokens out of circulation. Munchee emphasized to potential purchasers how they could profit from those efforts:

While Munchee told potential purchasers that they would be able to use MUN tokens to buy goods or services in the future after Munchee created a "Platform," no one was able to buy any good or service with MUN throughout the relevant period."

As follows from the Order, the Munchee marketing campaign was aggressively designed as to deliver to investors an idea that MUN will be traded on a secondary market with an exponential growth. The more actively Munchee echoes this message, the less meaningful the economical use of the platform becomes. The SEC has traced the following blog post commercials that among others prove investors' expectations of profits.

"Munchee published a blog post on October 30, 2017, that was titled "7 Reasons You Need To Join The Munchee Token Generation Event." Reason 4 listed on the post was "As more users get on the platform, the more valuable your MUN tokens will become" and then went on to describe how MUN purchasers could "watch their value increase over time" and could count on the "burning" of MUN tokens to raise the value of remaining MUN tokens."

Munchee underlines the strong linkage between the number of participants, building of the platform and growth of MUN token value.

"Similarly, on or about October 23, 2017, one of Munchee's founders described the opportunity on a podcast about the MUN offering: So, they [users] will create more quality content to attract more restaurants onto the platform.

So, the more restaurants we have, the more quality content Munchee has, the value of the MUN token will go up—it's like an underlying incentive for users to actually contribute and actually build the community."

What is more, Munchee was negligent to endorse third party statements that touted the opportunity to profit.

"On October 25, 2017, Munchee created a public posting on Facebook, linked to a third-party YouTube video, and wrote "199% GAINS on MUN token at ICO price! Sign up for PRE-SALE NOW!" The linked video featured a person who said "Today we are going to talk about Munchee. Munchee is a crazy ICO.

If you don't know what an ICO is, it is called an initial coin offering. Pretty much, if you get into it early enough, you'll probably most likely get a return on it."

This person went on to use his *"ICO investing sheet"* to compare the MUN token offering to what he called the *"Top 15 ICOs of all time"* and *"speculate[d] that a $1,000 investment could create a $94,000 return."*

Finally, the MUN token marketing campaign strengthened beyond the United States where the restaurants were not located and focused primarily on the forums of people who are interested in crypto assets investments.

"Instead, Munchee and its agents promoted the MUN token offering in forums aimed at people interested in investing in Bitcoin and other digital assets, including on BitcoinTalk.org, a message board where people discuss investing in digital assets. These forums are available and attract viewers worldwide, even though the Munchee App was only available in the United States."

Similarly, Munchee offered to provide MUN tokens to people who published promotional videos, articles or blog posts in forums such as BitcoinTalk.org or otherwise helped Munchee promote the MUN token offering. More than 300 people promoted the MUN token offering through social media and by translating MUN token offering documents into multiple languages so that Munchee could reach potential investors in South Korea, Russia, and other countries where the Munchee App was unavailable"

In conclusion and for the purposes of this legal opinion, we note that in accordance with the SEC position in Re Munchee any ICO project may not meet the third and fourth prong (expectation of profits solely from the managerial benefits of others) of the Howey Test if the project represents only a veil without substantial economical underlying platform.

D. Comparison with the Verge Crypto-Currency General Partnership case

Plaintiffs Cameron James and the other plaintiffs filed their Complaint against Justin E. Valo. The case allegedly arises out of the theft of Plaintiffs' Verge virtual currency (the **"Verge Coins"**), which were themselves unregistered securities, from a smart phone "hot wallet" application called CoinPouch that was developed and marketed by two related Texas entities that are now in bankruptcy—Touch Titans, LLC, and Touch Titan Labs, LLC.

Among others, plaintiffs claim a Defendant Valo, the Lead Developer of Verge, and the Verge Crypto-Currency General Partnership, a common law general partnership formed to develop, market and benefit from the use of the Verge Coins (collectively the **"Partnership"**), engaged in intentional, reckless or negligent acts leading to the theft of their Verge Coins.

In accordance with the complaint, the Partnership violated Sections 5 and 12(a) of the Securities Act and the Computer Fraud and Abuse Act ("CFAA") [18 U.S.C. § 1030], in addition to other relevant Texas state law claims pleaded. The second count was securities law violation, the third count—conversion, the fourth—unjust enrichment, and the fifth claim was based on product liability.

For the purposes of this legal opinion, we consider one issue that, from our point of view, might be relevant to the fact pattern provided in the WP even though there is no court decision in the Justin E Valo case.

We do not consider how Plaintiffs came to the conclusion that Verge token *is not a security* in accordance with the Howey Test, since they do not provide explanations on the reasoning behind the claim. However, the question we have proposed is whether the Project amounts to a partnership.

In accordance with Uniform Partnership Act of 1997 Section 202:

a) …Association of two or more persons to carry on as co-owners a business for profit forms a partnership, whether or not the persons intend to form a partnership.

b) In determining whether a partnership is formed, the following rules apply:

(1) Joint tenancy, tenancy in common, tenancy by the entireties, joint property, common property, or part ownership does not by itself establish a partnership, even if the co-owners share profits made by the use of the property.

(2) The sharing of gross returns does not by itself establish a partnership, even if the persons sharing them have a joint or common right or interest in property from which the returns are derived.

(3) A person who receives a share of the profits of a business is presumed to be a partner in the business, unless the profits were received in payment:

From the uniform law provided above, it can be inferred that a major difference between a partnership and other forms of incorporation relates to whether and to which extent the entire business may be declared to be a legal entity.

In this respect, it can be defined that legal entity is a separate subject of law having its own rights such as the right to own and dispose of property, to sue and be sued, and to enter into contracts. In other words, there are two separate subjects recognized by the law. When individuals carry out a common enterprise as partners, the common law dictates that partnership does not exist. Under the common-law theory, a partnership is an aggregate word for individuals. The rights and duties recognized and imposed by common law are those of the individual partners.

Plaintiffs in their lawsuit did not unfold the doctrine of joint partnerships but did make such a conclusion as several people were listed in the Black Paper with the main goal of investment collection, such as founders, developers, marketers.

In this respect and considering the alleged claims to be true that people involved in building an ecosystem are those that "*receive a share of the profits"* members of the decentralized system could fall into the domain of Section 202 (a) (3) of the Uniform Partnership Act 1997.

Based on the Project Documents, we note that the profit-sharing element is not satisfied with respect to the Project tokens because:

(a) The Token features do not grant users any rights to receive any passive income, income or other payments by virtue of their ownership of the Tokens. Moreover, any profit can be gained by the users only through active actions, which includes selling or buying goods vis the Platform, participating in "Proof of Stake" remuneration program ("staking", which will be further analyzed in section V [*Analysis Under the Howey Test*] of this legal opinion), etc.; and

(b) Although a user using the Project may be able to receive tokens for their contribution to the Project, such distribution of rewards and / or incentives is based on the user contributing to the Project by providing liquidity to the Project's liquidity pool. Accordingly, rewards and / or incentives are allocated in accordance with such contributions of such user to the Project, and not because such user owns tokens.

The Project case is different since it is more likely that Tokens do not represent an investment instrument as analyzed below. Taking for granted that Tokens are not securities, we may come to the conclusion that Section 202 (a) (3) is not applicable here. Each user is not a partner to the Project and is not promised any share in any Project company.

Then, unlike with the Verge Case, in the Project none of the materials identify persons involved in the promotion of the Project, its tight circle, bonds, investments interests or forms of incorporation.

Yet, the Project might fall into a "safe harbor" under section 202 (a) 2 of the Uniform Partnership Act 1997 providing the mere sharing of gross returns does not establish partnership even if the persons sharing them have a joint or common right or interest in property from which the returns are derived.

Considering all the above, we note that the Verge case is a mere claim of a Plaintiff. No competent court has yet introduced the decision and underlined its point of view, therefore this case is not decisive to this legal opinion.

E. Consideration of the SEC vs. TELEGRAM GROUP INC. and TON ISSUER INC.

In the SEC vs. TELEGRAM GROUP INC. and TON ISSUER INC., the SEC sought to prevent Telegram Group Inc. and TON Issuer Inc. (collectively **"Telegram"**) from engaging in a plan to distribute Telegram's tokens **("Grams")** in what it considered to be an unregistered offering of securities.

As established by the court decision, in early 2018, Telegram received $1.7 billion from 175 sophisticated entities and high net-worth individuals in exchange for a promise to deliver 2.9 billion Grams. Telegram contended that the agreements to sell the 2.9 billion Grams were *"lawful private placements of securities covered by an exemption from the registration requirement."*

In Telegram's view, *"only the agreements with the individual purchasers are securities."* According to Telegram, the Grams were not to be delivered to these purchasers until the launch of Telegram's new blockchain, the Telegram Open Network **("TON")**. Telegram viewed the anticipated resales of Grams by the 175 purchasers into a secondary public market via the TON as *"wholly-unrelated transactions"* and argued *"they would not be the offering of securities."*

The SEC saw things differently. The initial purchasers are, in its view, *"underwriters" who, unless Telegram is enjoined from providing them Grams, will soon engage in a distribution of Grams in the public market, whose participants would have been deprived of the information that a registration statement would reveal."*

The Court found that the SEC showed *"a substantial likelihood of success in proving that the contracts and understandings at issue, including the sale of 2.9 billion Grams to 175 purchasers in exchange for $1.7 billion, are part of a larger scheme to distribute those Grams into a secondary public market, which would be supported by Telegram's ongoing efforts."* Considering the economic realities under the Howey test, the Court came to a conclusion that, *"in the context of that scheme, the resale of Grams into the secondary public market would be an integral part of the sale of securities without a required registration statement."* Therefore, the Court granted the SEC's motion for a preliminary injunction.

The case under consideration is valuable for understanding, as in its Opinion and Order dated March 24, 2020, the Court summarized the law enforcement practice in the field of securities legislation and formulated a number of conclusions concerning the public sale of cryptocurrencies.

Among other things, the Court introduced a position regarding at what point in time it is necessary to evaluate the token under the Howey Test. The Court rejected the Telegram's arguments that Grams had to be evaluated under the Howey Test at the time of their delivery to the purchasers, i.e., at the launch of the TON Blockchain (in view of the Telegram, once the TON Blockchain is launched the delivery of the Grams is not to be part of a common enterprise and will not provide essential managerial efforts).

The Court stated that "*Howey requires the Court to examine the series of understandings, transactions, and undertakings at the time they were made*" and *"for the purposes of the securities laws, a sale occurs when "the parties obligated themselves to perform what they had agreed to perform even if the formal performance of their agreement is to be after a lapse of time …"*

Of great importance is the Court's position in relation to such Howey prong as "Common Enterprise." According to the previous law enforcement practice, the existence of a common enterprise may be demonstrated through either horizontal commonality or vertical commonality.

Horizontal commonality is established when investors' assets are pooled and the fortune of each investor is tied to the fortunes of other investors as well as to the success of the overall enterprise. In contrast, vertical commonality requires that the fortunes of investors are tied to the fortunes of the promoter.

In the SEC vs. TELEGRAM GROUP INC. and TON ISSUER INC., the Court expands this approach based on whether the project was launched on the date of the token sale or not.

The Court states that *"the ability of each Initial Purchaser to profit was entirely dependent on the successful launch of the TON Blockchain. If the TON Blockchain's development failed prior to launch, all Initial Purchasers would be equally affected as all would lose their opportunity to profit, thereby establishing horizontal commonality at the time of 2018 Sales."*

The Court notes that *"the SEC has made a substantial showing of strict vertical commonality … Telegram's own fortunes were similarly dependent on the successful launch of the TON Blockchain as Telegram would suffer financial and reputational harm if the TON Blockchain failed prior to launch."*

Thus, in the context of the SEC vs. TELEGRAM GROUP INC. and TON ISSUER INC., we can conclude that should the sale of tokens take place before the launch of the project, such tokens may be qualified by American courts as securities.

The Court also expressed its opinion as to which circumstances are of the greatest importance for evaluating the tokens under the Howey Test. We will explain this in more detail in the Section V [*Analysis Under the Howey Test*] of this legal opinion.

F. Consideration of SEC vs. RIPPLE LABS, INC., BRADLEY GARLINGHOUSE, and CHRISTIAN A. LARSEN

On December 22, 2020, the SEC filed an action against Ripple Labs Inc. and two of its executives, who are also significant security holders, alleging that they raised over $1.3 billion through an unregistered, ongoing digital asset securities offering.

According to the SEC, Ripple and its executives raised capital to finance the company's business. The complaint alleged that Ripple raised funds, beginning in 2013, through the sale of digital assets known as XRP in an unregistered securities offering to investors in the U.S. and worldwide. Ripple also allegedly distributed billions of XRP in exchange "*for non-cash consideration, such as labor and market-making services*." The complaint alleged that the defendants failed to register their offers and sales of XRP or satisfy any exemption from registration, in violation of the registration provisions of the federal securities laws.

According to the SEC, *"Issuers seeking the benefits of a public offering, including access to retail investors, broad distribution and a secondary trading market, must comply with the federal securities laws that require registration of offerings unless an exemption from registration applies … ,"* and *"The registration requirements are designed to ensure that potential investors—including, importantly, retail investors—receive important information about an issuer's business operations and financial condition … ."*

The SEC stated that Ripple never filed a registration statement, thus, it never provided investors with the material information that other issuers included in such statements when soliciting public investment. Instead, Ripple *"created an information vacuum"* such that Ripple could sell XRP into a market that possessed only the information Ripple chose to share about the project.

The SEC accused the defendants that they continue to hold substantial amounts of XRP and—with no registration statement in effect—can continue *"to monetize their XRP while using the information asymmetry they created in the market for their own gain, creating substantial risk to investors."*

When determining whether XRP counted as a security, the SEC applied the Howey test.

The SEC claimed that because XRP was fungible, the fortunes of XRP purchasers were tied to one another, and each depended on the success of Ripple's XRP strategy; XRP investors stood *"to profit equally if XRP's popularity and price increase, and no investor will be entitled to a higher proportion of price increases"*; Ripple pooled the funds it raised due to the offer of XPR and used them *"to fund its operations, including to finance building out potential "use" cases for XRP, paying others to assist it in developing a "use" case, constructing the digital platform it promoted"*; Ripple recognized and repeatedly emphasized *"these common interests to prospective investors, including by explaining to the market that Ripple used proceeds from XRP sales to fund its operations and that Ripple wanted XRP to succeed,"* and these circumstances were qualified by the SEC as though purchasers of XRP invested into a common enterprise.

The SEC pointed out that Ripple's publicly stated goal was *"to increase demand for XRP"*; Ripple assured investors that Ripple would *"protect the trading markets for XRP"*; Ripple *"touted investors' ability to easily buy and sell XRP"* highlighting XRP price was increasing, and in this regard, the SEC stated that Ripple led investors to reasonably expect a profit from their investment.

According to the SEC, Ripple promised to undertake significant efforts to build value for XRP as well as to develop and maintain a public market for XRP investors to resell XRP; Ripple promoted *"the ability of its team to succeed in its promised efforts"*; economic reality dictated that XRP purchasers had *"no choice but to rely on Ripple's efforts for the success or failure of their investment,"* and all the above indicates that Ripple led investors to reasonably expect that Ripple's entrepreneurial and managerial efforts would drive the success of Ripple's XRP project.

Based on the above, the SEC concluded that, *"at all relevant times during the offering, XRP was an investment contract and therefore a security subject to the registration requirements of the federal securities laws."*

As objections, Ripple stated that it did not violate Section 5 of the Securities Act because XRP was not a security or "investment contract," and Ripple's distributions or sales of XRP were not "investment contracts"; no registration was required in connection with any distribution or sale of XRP by Ripple.

One of the main arguments in Ripple's defense was that XRP had a variety of functions that differ from the concept of a "security" as the law understands it. XRP functioned as a virtual currency, a *"medium of exchange"* to facilitate transactions locally and internationally. Moreover, Ripple noted that nowhere in the world has XRP been considered a "security," citing interpretations by regulators in the UK, Singapore and Japan, where it has been defined as a virtual currency outside the scope of securities regulation:

"Securities regulators in the United Kingdom, Japan, and Singapore have likewise concluded that XRP is a virtual currency not subject to securities regulation. As the U.K. Treasury recently explained, "widely known cryptoassets such as Bitcoin, Ether and XRP" are not securities, but "[e]xchange tokens" that "are primarily used as a means of exchange."

Further, Ripple claimed that it did not have, and the SEC failed to provide, fair notice that Ripple's *"conduct was in violation of law, in contravention of Ripple's due process rights. Due process requires that laws give a person of ordinary intelligence a reasonable opportunity to know what is prohibited. Here, due to the lack of clarity and fair notice regarding Defendants' obligations under the law, in addition to the lack of clarity and fair notice regarding Plaintiffs' interpretation of the law, Ripple lacked fair notice that its conduct was prohibited."*

Ripple also asserted that the SEC lacked *"extraterritorial authority over all or some of the transactions alleged in the Complaint that took place outside the United States and/or were made on foreign exchanges."*

As at the date of this legal opinion, this case is under consideration and the court has not made a final decision.

G. Consideration of the SEC's order in the matter of Tierion, Inc.

The SEC initiated an administrative proceeding against company Tierion, Inc. **("Tierion")** for conducting in what the former considered to be *"an unregistered offering of securities in the form of a token sale."*

Tierion is a digital technology company established as a software-as-a-service (SaaS) company focused on blockchain receipts. The company's marketing policy was aimed at multiple industries, including insurance, healthcare, real estate, financial services, e-commerce etc.

In July 2017, Tierion announced that it would launch a new network for creating and verifying blockchain receipts, and that it was going to distribute the tokens **("TNT")** to fund the continued development of the network. Tierion issued approximately one billion TNT. During the token sale, which was accessible to investors worldwide, including in the U.S., Tierion sold approximately 350 million TNT to approximately 4,800 people, and raised approximately $25 million comprised of digital assets such as Bitcoin or Ether.

According to the SEC, the Tierion network was still in development at the time of the token sale, and, in SEC's opinion, reasonable investors would have understood that their money was funding the network continued development. Considering that in its whitepaper Tierion told investors that *"we have plans for future services that will be built on top of Chainpoint and will announce these services in the future",* the SEC concluded that TNT investors' money was pooled and funded the continued development of the Tierion network.

The SEC claimed that TNT were distributed to individuals and entities with no restrictions on the tokens' transfer or resale, thus, immediately upon the distribution, TNT has traded on the secondary market.

As it follows from the SEC's order, TNT had no consumptive use at the time of the token sale; Tierion told potential investors that it planned for TNT to be used as a medium of exchange within the network, however, it could take an indefinitely long time for Tierion to build additional applications that would accept TNT as a medium of exchange.

According to the SEC, Tierion made investors to believe that it would continue its development of the Tierion Network, in particular, the company *"touted its founders' and early investors' backgrounds and experience in the blockchain industry, and publicized its past history of partnerships with prominent companies. Tierion took steps to ensure that TNT would be made available to trade on secondary markets ..."*

The SEC asserted that in its promotional materials Tierion highlighted the technology and blockchain experience, and management skills of its employees and consultants.

The SEC pointed out that *"Reasonable investors would have understood that Tierion was the developer of, and was responsible for maintaining, the Tierion Network, and that investors would have to rely on Tierion to improve the network and increase the value of TNT, and in that way return a profit for investors. Tierion's management had previously developed relationships with prominent corporate partners and customers and touted those relationships to investors as a basis to invest in TNT. Reasonable investors would have known that Tierion's management – not TNT investors – would be responsible for the success or failure of those relationships and the future development of other partnerships."*

Based on the fact that Tierion's sale of TNT was not registered with the SEC, nor did Tierion's sale of TNT satisfy any valid exemption from registration, the SEC came to the conclusion that Tierion violated Section 5(a) and Section 5(c) of the Securities Act.

Tierion consented to the order without admitting or denying its findings. As part of the settlement, Tierion agreed to pay a $250,000 penalty and to disable trading of TNT. Tierion also undertook to provide compensation to holders of TNT who purchased in the token sale or in the secondary market, or who received TNT as a reward from Tierion, and to those who purchased TNT in the token offering and later sold at a loss.

H. Guidelines, Report on ICO and Other Sources Taken into Consideration in This Legal Opinion

1) SEC's order against blockchain company Block.one. to pay $24 million penalty for unregistered ICO.

2) SEC`s order against EtherDelta for operating an unregistered exchange.

3) SEC`s order against international security-based swaps dealer XBT Corp that targeted U.S. investors.

4) SEC`s order against ICO incubator ICOBox and founder for unregistered offering and unregistered broker activity.

5) SEC`s order against Bitqy and BitqyM and its founders for defrauding investors in unregistered offering and operating unregistered digital asset exchange.

6) SEC`s order against research and rating provider ICORating for failing to disclose it was paid to tout digital assets.

7) SEC against Kik Interactive, No. 19-cv-5244 (S.D.N.Y., filed June 4, 2018).

8) SEC`s Investor Bulletin: Initial Coin Offerings, July 25, 2017.

9) SEC Investor Alert: "Bitcoin and Other Virtual Currency-Related Investments."

10) SEC Investor Alert: "Ponzi Schemes Using Virtual Currencies."

11) SEC Investor Alert: "Social Media and Investing—Avoiding Fraud."

12) SEC Investor Alert: "Public Companies Making ICO-Related Claims" Aug. 28, 2017.

13) Statement on framework for investment contract' analysis of digital assets, Bill Hinman, Director of Division of Corporation Finance, Valerie Szczepanik, Senior Advisor for Digital Assets and Innovation.

14) Chairman's testimony on virtual currencies: "The Roles of the SEC and CFTC" Chairman Jay Clayton, Washington D.C., February 6, 2018.

15) Framework for "Investment Contract" Analysis of Digital Assets by the Strategic Hub for Innovation and Financial Technology.

V. Analysis Under the Howey Test

We provide our analysis of the token below based on each Howey Test factor.

A. Investment of Money

In determining whether an investment contract exists, the investment of "money" need not take the form of cash. See, e.g., Uselton v. Comm. Lovelace Motor Freight, Inc., 940 F.2d 564, 574 (10th Cir. 1991).

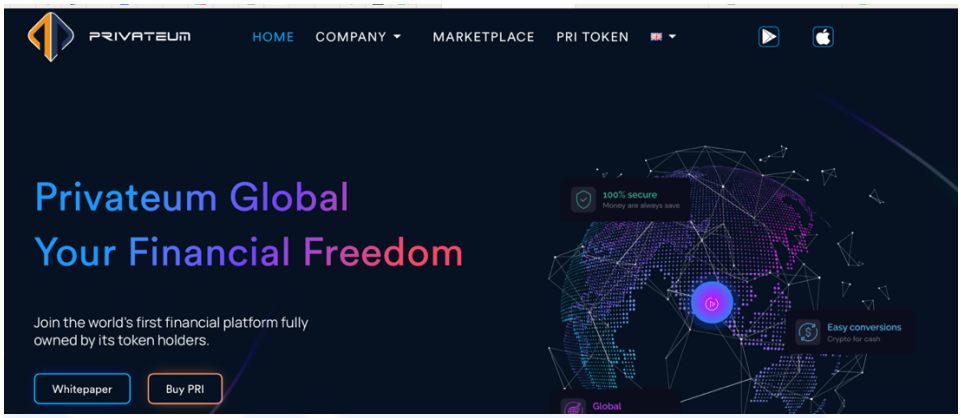
"In spite of Howey's reference to an 'investment of money,' it is well established that cash is not the only form of contribution or investment that will create an investment contract."

In Re DAO Report:

*"Investors in The DAO used ETH to make their investments, and DAO Tokens were received in exchange for ETH. Such investment is the type of contribution of value that can create an investment contract under Howey. See SEC v. Shavers, No. 4:13-CV-416, 2014 WL 4652121, at *1 (E.D. Tex. Sept. 18, 2014) (holding that an investment of Bitcoin, a virtual currency, meets the first prong of Howey); Uselton, 940 F.2d at 574 ("[T]he 'investment' may take the form of 'goods and services,' or some other 'exchange of value'."*

As we can see in the case law analysis above, it was not difficult for courts to establish the *"investment money"* prong.

There are no questions regarding the public offer, since at the time of preparation of the legal opinion, the White Paper was posted on the official website of the Project (link: https://www.privateum.com) and is available on it for all third parties. In addition, the Project website itself contains information about Tokens and their purchase.



However, further distribution of the Tokens will ultimately be outside of the Project's control. Hence, we may treat this as broad communications to the general public. It is stated in the court's decision that Bitcoin may be used to purchase goods or services or to pay for individual living expenses. The only limitation of Bitcoin is that it is limited to those places that accept it as currency.

Since Bitcoin or any other cryptocurrency has all functions inherent to a real currency, it can be considered as the "money" when it is used as consideration in forming an investment contract.

Therefore, this element of the test is straightforward for us and points toward the Tokens being an *"Investment of Money."*

B. Common Enterprise

In contrast with *"Investment of Money"* prong, the Token does not satisfy *"Common Enterprise"* element of the Howey Test.

A common enterprise exists if there is *"commonality"* between the promoter and investor. The law enforcement practice recognizes *"Horizontal Common Enterprise"* and *"Vertical Common Enterprise."*

"Horizontal Common Enterprise" is found where investors combine their investments in one pool and the fortune of each investor depends on the success of the overall enterprise. In some courts, judges are seeking to decide whether a pro rata sharing of profits takes place. However, it would be fair to note that, according to the general approach, while schemes with horizontal commonality often include a pro rata distribution of revenues or income, such a pro rata distribution is not obligatory for horizontal commonality.

The essence of *"Horizontal Common Enterprise"* is that investors are tied together in their risks either to receive or to lose everything. An example of this approach is the SEC vs. TELEGRAM GROUP INC. and TON ISSUER INC., where the court stated:

"The ability of each Initial Purchaser to profit was entirely dependent on the successful launch of the TON Blockchain. If the TON Blockchain's development failed prior to launch, all Initial Purchasers would be equally affected as all would lose their opportunity to profit, thereby establishing horizontal commonality … ."

Based on the analyzes of the Project Documents, we came to the conclusion that the Token does not contain any signs of *"Horizontal Common Enterprise"* for the following reasons.

The basis of the Project is the possibility of unhindered interaction of users to achieve mutually beneficial goals. Thus, the economic reality underlying Privateum Global provides wide autonomy to each individual user who has the opportunity to use various financial instruments available within the Platform. Among them are such as a system of discounts on commissions and contributions, a payment transfer system, an electronic wallet, staking, and crypto loans.

Looking at the technical side of the Project, we see that any user of the Project acts as an independent consumer, and the Project provides IT support that can be used by the user to meet a set of personal needs. Marketplace Project products for buying and selling goods and services from all over the world include Privateum Global Cooperative Business Integration Platform, Privateum Vault, KYC & KYB Platforms, Legal Partners Protection.

We also take into account that according to the Statements of Facts, *"the amount of benefits, which can be obtained by the users of the Project, depends on their own actions/amount of spending."* Thus, users can earn income thanks to the staking available within the Platform. In addition, the user interaction model underlying the Project provides for the possibility of rewarding the most active users of the Project.

According to the information provided in the White Paper: *"Patronage rewards are bonuses distributed among the participants of the Platform in accordance with the volume of their activity within the Project such as buying or selling goods or services within the Platform, participation in voting, swapping PRI, etc."*

In this regard, the users of the Project are most likely independent and bear the risks of adverse consequences caused mainly by their own actions or inaction.

As it was stated above, a pro rata distribution is not an absolute criterion for horizontal communality. However, since some judges examine it as an auxiliary criterion, we note that the Project Documents do not contain any mention of pro rata distribution. Moreover, it is expressly indicated in the Statements of Facts that *"the Company does not promise any passive income or dividend distribution."* The income of users directly depends on their own actions and activity within the framework of the Project.

Regarding the risk of loss due to the Project failure prior to launch, we note that according to the Statements of Facts *"the Project is at the final stage of development and will be launched in the near future,*". As described earlier herein (see section III *[Findings of Fact]* of the legal opinion)), the project is already at the stage when it might be developed without assistance of the founders. Therefore, the above risk is absent as at the date hereof.

To sum up, it cannot be inferred that in the case under consideration the fortune of each investor depends on the success of the overall Project.

Speaking of the *"Vertical Common Enterprise,"* it should be noted that there are two principal approaches to determining if a vertical commonality exists: 1) strict vertical commonality, and 2) broad vertical commonality.

In strict vertical commonality, it is not necessary that the funds of investors are pooled; what must be shown is that the fortunes of the investors are linked to those of the promoters, thereby establishing the requisite element of strict vertical commonality. Thus, a strict vertical enterprise exists if a direct correlation has been established between the profits and losses of the promoters and the profits and losses of the investors.

As an example of strict vertical commonality, we would like to quote another conclusion of the court in the SEC vs. TELEGRAM GROUP INC. and TON ISSUER INC.:

"Alternatively, the SEC has made a substantial showing of strict vertical commonality. Each Initial Purchaser's anticipated profits were directly dependent on Telegram's success in developing and launching the TON Blockchain. Telegram's own fortunes were similarly dependent on the successful launch of the TON Blockchain as Telegram would suffer financial and reputational harm if the TON Blockchain failed prior to launch."

In broad vertical commonality, investors' success depends on the efficacy of the managers or third parties. If the investor relies on the promoter's expertise, then the transaction or scheme represents a common enterprise and satisfies the second prong of the Howey Test.

The approach of broad vertical commonality has been heavily criticized recently. The fact is that there is no real difference between the broad vertical commonality and the fourth stage of the Howey Test *"Solely from the Managerial Efforts of Others."*

If a broad vertical commonality test is applied, then there is no reason to apply the fourth element of the Howey Test, since the result will be the same. Opponents of using the broad vertical commonality method say that if the Supreme Court in Howey had intended to provide a broad vertical commonality to satisfy the element of the *"Common Enterprise,"* the Court would not have added the fourth element of the test *"Solely from the Managerial Efforts of Others."*

We believe that the above position is reasonable. For this reason, in this section of the legal opinion we only describe what the broad vertical commonality is, while a detailed assessment of whether the investors' success in the Project depends on the efficacy of the managers or third parties will be given in section V(D) *[Solely from the Managerial Efforts of Others]* of this legal opinion.

Analyzing the economic reality underlying the Project, we came to the opinion that the risks that Token users assume are more likely of a different nature as compared with those risks that promoters incur.

The Project's risks are associated with the inability to use funds in a way not specified in the WP, or to use them improperly, or to end up with a fiasco either with regard to the use of funds or to the lack of a critical number of users that could increase the economy of the Project.

In all other cases, it is more likely that the promoter's risks do not correlate with those of the users. We are inclined to believe that, in general, the Token users will only face risk if the declarations contained in the WP are not implemented.

To date, the functions of the Project launched by the Company are available for use by any authorized user. For this reason, each participant in the Project begins to pursue its goals and thus, in such pursuit, will face its own risks, misfortunes and failures, which will not mix with the fate of the Project.

This is due to the fact that in the Project the profit of each individual user does not depend on the profit of the promoters. For example, a user may fail in their operations and efforts and end up with a net loss after accounting for business expenses. Thus, within the framework of the Platform, users have the right to independently determine with which of the Project participants they will make transactions for the purchase, sale or exchange.

The Project, in contrast, can turn a profit during the same period of time. Similarly, a company may have a down year, whereas individual users may find that despite the Project's losses, they generate a profit. In both scenarios, the profits and losses of the users and the promoters do not rise and fall synchronously, so the strict vertical commonality does not really exist.

It might be inferred that the Token is more likely to be a consumer goods than a security since consumer goods companies do not generally induce purchasers to purchase their products by advertising how the purchase money will be used. It is likely that the relevant information provided in the WP serves for informational purposes only, rather than to incentivize the prospective purchasers to buy the Tokens.

Based on the above, the Token is more likely not to match *"Common Enterprise"* element of the Howey Test.

C. Expectation of Profits

Despite the Token has a number of utility features, as will be further described herein, we believe that it appears to satisfy the third element of the Howey Test for the following reasons.

In Re DAO Report, it was stated as follows:

"The ETH was pooled and available to The DAO to fund projects. The projects (or "contracts") would be proposed by Contractors. If the proposed contracts were whitelisted by Curators, DAO Token holders could vote on whether The DAO should fund the proposed contracts. Depending on the terms of each particular contract, DAO Token holders stood to share in potential profits from the contracts. Thus, a reasonable investor would have been motivated, at least in part, by the prospect of profits on their investment of ETH in The DAO."

At the same time, in consideration of the Munchee case, an interesting point has been made:

"Like many other instruments, the MUN token did not promise investors any dividend or other periodic payment. Rather, as indicated by Munchee and as would have reasonably been understood by investors, investors could expect to profit from the appreciation of value of MUN tokens resulting from Munchee's efforts."

The SEC goes further in Munchee and underlines the uselessness of merely denoting token a utility as such:

"Even if MUN tokens had a practical use at the time of the offering, it would not preclude the token from being a security. Determining whether a transaction involves a security does not turn on labelling—such as characterizing an ICO as involving a "utility token"—but instead requires an assessment of "the economic realities underlying a transaction." Forman, 421 U.S. at 849. All of the relevant facts and circumstances are considered in making that determination. See Forman, 421 U.S. at 849 (purchases of "stock" solely for purpose of obtaining housing is not the purchase of "investment contract"); see also SEC v. C.M. Joiner Leasing Corp., 320 U.S. 344, 352-53 (1943) (indicating the "test . . . is what character the instrument is given in commerce by the terms of the offer, the plan of distribution, and the economic inducements held out to the prospect")."

The expectation of profits from a purchase of any subject of value often takes place. One may be motivated and has to have speculative interest, for example, to resell the commodity or the right rather than retain an interest in personally consuming the subject of value.

"It is an investment where one parts with his money in the hope of receiving the profits from the efforts of others, and not where he purchases a commodity for personal consumption or living quarters for personal use."

Further, we will give an example where the court explain in which cases a purchase can be made without the purpose of making a profit.

In Forman case the court stated that in contrast to an investment intent, an individual may acquire an asset with "*a desire to use or consume the item purchased*." A transaction does not fall within the scope of the securities laws when a reasonable purchaser is motivated to purchase by a consumptive intent.

In consideration of Warfield v. Alaniz, the court introduced that the inquiry is an objective one focusing on the promises and offers made to investors; it is not a search for the precise motivation of each individual participant:

"*Under Howey, courts conduct an objective inquiry into the character of the instrument or transaction offered based on what the purchasers were led to expect*."

The above court's explanation is, in our opinion, of high importance for understanding. The fact is that expectation of profit is actually an internal subjective feeling. The expectation of profit for each individual person has no objective expression in the material world and can vary depending on age, education, occupation, life experience and many other factors. Realizing this, the court in Warfield v. Alaniz introduced an approach that allows to assess the expectation of profit on the basis of objective criteria, namely on the basis of *"what the purchasers were led to expect."*

Thus, within *"Expectation of Profits"* prong, it is necessary to consider not the assumptions in relation to person's subjective feelings, but information objectively expressed in the material world that could form expectation of profits.

Having studied the Project Documentation, we have not found any information that could lead the users of the Project to expect a passive income or profit from holding Tokens. An exception in this case may be the income that some users may receive due to the staking available within the Platform. In addition, Token holders can be rewarded for activity and a large volume of transactions and actions performed within Privateum Global. The decision on the distribution of rewards among the most active participants will be decided by a vote organized among the users of the Platform.

The Project Documents do not contain any promises and offers that the Token will increase in price or there is any possibility of using the Token for speculative purposes. On the contrary, it is expressly stated in the Statement of Facts that *"the Company does not promise any passive income or dividend distribution"* and *"the marketing materials distributed do not contain any information about how the Tokens can be used for profit."*

Another aspect that the courts traditionally investigate when analyzing the third element of Howey is whether an investor is simply purchasing a commodity for personal use, or if he is purchasing a commodity as a tool for making a profit. If the commodity has a practical application, this may indicate that the purpose is to use it with a consumptive intent, and not as investment of financial assets.

According to the Statements of Facts *"the Tokens can be practically used in the Project."*

The Project Documents include information about the possible potential consumer use of the Token and highlight the products developed by the Company as part of Privateum Global. The White Paper declares such Project products as the Marketplace, which allows you to sell and buy goods and services around the world, Privateum Wallet, Privateum Vault, KYC & KYB Platforms, Legal Partners Protection. In turn, the Token is used as a means of payment in transactions and also as a means of access to all functions of the Platform.

Given that the Project does not promise any passive income from holding Tokens, the useful properties of the Token may indicate that it will be acquired with consumer intent. We also tend to believe that, in view of the foregoing, if someone acquires a Token for the purpose of making a profit, then this happens solely due to his subjective motivation, and not the marketing materials of the Project, expressed in an objective form.

The consumer purposes, as a rule, correlate with the purchase of commodity in the amount necessary for personal use. Conversely, when a commodity is purchased for investment purposes, the amount usually significantly exceeds what is reasonably needed for personal consumption. In this regard, we note that according to the Statements of Facts *"it is assumed that the Tokens are primarily held in amounts needed for expected use."* Thus, the number of Tokens owned by each user of the Project depends on his plans for the volume of transactions made within the marketplace, and also depends on his desire to participate in the management of the Project. According to the Company's statements, Token holders may participate in voting to resolve certain issues related to the development of the Project.

An essential criterion for distinguishing consumer goals and investment goals is the target audience to which sales and offers are directed.

In the SEC vs. TELEGRAM GROUP INC. and TON ISSUER INC. the court stated:

"Consumptive uses for Grams were not features that could reasonably be expected to appeal to the Initial Purchasers targeted by Telegram. In seeking participants for the 2018 Sales, Telegram did not focus on cryptocurrency enthusiasts, specialty digital assets firms, or even mass market individuals who had a need for an alternative to fiat currency … Instead, Telegram selected sophisticated venture capital firms (and other similar entities) as well as high net worth individuals with an inherent preference (i.e., their business model) toward an investment intent rather than a consumptive use … ."

In contrast to the example described above, and as it is mentioned in the Statements of Facts, *"the Company sells/will sell the Tokens to general public, not to sophisticated investors."*

As it follows from the WP, the Token, among other things, allows users to use it for staking. Whether such use of the Token is connected with the expectation of profits is, in our opinion, the controversial issue.

From a technical point of view, staking ensures the security and operability of a blockchain network using the consensus algorithm known as the Proof of Stake **(PoS)**.

The consensus algorithm is a set of rules by which various participants of the blockchain network approve transactions. Since a decentralized blockchain network does not have a central authority to confirm transactions, consensus algorithm ensures that all network participants agree to one version of the blockchain.

PoS is a kind of consensus algorithm according to which randomly selected validation nodes (validators) put their own tokens to create or confirm new blocks in the current blockchain. Therefore, PoS is the method of protection in cryptocurrencies that allows to maintain reliability and transparency within the blockchain network.

According to the WP, the Project functions using PoS algorithm, thus, within the Project staking is primarily a tool designed to ensure the viability of the Project. It will be also fair to note that it is impossible to use the utility features of the Token without maintaining the proper operability of the Project.

In this context, we tend to assume that the main goal of a user who is engaged in the Tokens staking is to ensure the usability of the Tokens, while receiving a commission for staking is, under such circumstances, not profit, but rather compensation for depositing part of the Tokens, that is, inability to use the deposited part of the Tokens for their intended consumer purpose.

Having described the utility features of the Token, we consider it us necessary to take into account the following.

Cryptoassets can be structured in different forms, which are not mutually exclusive. In theory, a token issued as a utility one can be used as a security token during its lifecycle. We also realize that the economic and technical parameters of the project can change over time, which leads to variations in the nature of its native token.

Regarding the Project under consideration, we should note that despite the utility features of the Token, we cannot exclude the possibility of its use for speculative purposes aimed at making a profit, in particular, at the subsequent stages of the Project. Even if the Project promoters did not pursue the goal of issuing the Token as a tool for making profits, the Token can be used, subject to certain assumptions, with this intent giving us a reason to conclude that the Token meets the prong *Expectation of Profits* of the Howey test.

Therefore, we suppose this prong is more likely to push the scale towards the Token can be deemed as a security.

D. Solely from the Managerial Efforts of Others

The fourth prong of the Howey requires a finding that the investors anticipate profits based solely on the managerial efforts of others. Analyzing this prong, courts consider whether the potential investors expect to receive profits from their own efforts (use of rights or services obtained from promoters) or from the efforts of the others (promoters, managers).

As an example of the case where the court found that the investors' anticipation of profit was based solely on the managerial efforts of others, we would like to quote from the SEC vs. TELEGRAM GROUP INC. and TON ISSUER INC.:

"Thus, to realize a return on their investment, the Initial Purchasers were entirely reliant on Telegram's efforts to develop, launch, and provide ongoing support for the TON Blockchain and Grams … Initial Purchasers' dependence on Telegram to develop, launch, and support the TON Blockchain is sufficient to find that the Initial Purchasers' expectation of profits was reliant on the essential efforts of Telegram."

We should add that not all the courts share the approach of the Supreme Court using the term *"solely"* that defines the efforts of others. Some federal courts later relaxed this approach exploiting *"de minimis"* efforts of others or the concept of *"undeniably significant"* or *"predominantly"* after the Re Forman case. So even if the investor has the power to be involved, the transaction may still be an investment contract if the efforts of others predominate.

"Whether the efforts made by those other than the investor are the undeniable significant ones, those essential managerial efforts which affect the failure or success of the enterprise" (The Forman case; SEC v Glenn W Turner Enters., 474 F.2 d 476 sec.28 (Feb. 1, 1973)."

In Re DAO, it was stated based on the facts:

"The Curators exercised significant control over the order and frequency of proposals and could impose their own subjective criteria for whether the proposal should be whitelisted for a vote by DAO Token holders. DAO Token holders' votes were limited to proposals whitelisted by the Curators, and, although any DAO Token holder could put forth a proposal, each proposal would follow the same protocol, which included vetting and control by the current Curators. While DAO Token holders could put forth proposals to replace a Curator, such proposals were subject to control by the current Curators, including whitelisting and approval of the new address to which the tokens would be directed for such a proposal. In essence, Curators had the power to determine whether a proposal to remove a Curator was put to a vote."

Then in the DAO case, the SEC underlined that investors mostly rely on the actions of Slock.it.

"Although DAO Token holders were afforded voting rights, these voting rights were limited. DAO Token holders were substantially reliant on the managerial efforts of Slock.it, its co-founders, and the Curators."

We start the analyze under the fourth prong of Howey with a look at how much development needs to happen for the Token to reach its usefulness. According to the general approach, if a token is sold in an undeveloped state, that provides the stronger argument that purchasers are buying and expect profits "*from the efforts of others*" and the purchase itself is *"a bet on the success."* Thus, the more work needs to be done on the token, the greater the risk the company takes at the time it sells that token.

First of all, we note that according to the Statements of Facts *"the Project is at the final stage of development and will be launched in the near future."* The Company reports that at the moment some functions are available to interested users *"while public wallet and website is live we still are in the development phase of marketplace and private wallet."*

In 2018, the SEC's Director of Corporate Finance William Hinman introduced the following approach:

"The impetus of the Securities Act is to remove the information asymmetry between promoters and investors ...But this also points the way to when a digital asset transaction may no longer represent a security offering. If the network on which the token or coin is to function is sufficiently decentralized—where purchasers would no longer reasonably expect a person or group to carry out essential managerial or entrepreneurial efforts—the assets may not represent an investment contract. Moreover, when the efforts of the third party are no longer a key factor for determining the enterprise's success, material information asymmetries recede" and "the ability to identify an issuer or promoter to make the requisite disclosures becomes difficult, and less meaningful."

Later, this position of the SEC's Director of Corporate Finance was consolidated in the SEC's letters dated April 2, 2019, and July 25, 2019, Re TurnKey Jet, Inc. and Pocketful of Quarters, Inc., accordingly, where the Commission introduced some major criteria exempting from registration under the Securities Act and the Exchange Act. In particular, the SEC concluded that the tokens are not securities providing that the founders *"will not use any funds from the token sales"* to build the platform, which has been fully developed and will be *"fully functional and operational"* immediately upon its launch and before any of the tokens are sold.

As it is expressed in the Statements of Facts *"the community takes a central role in development and growth of the Project."* Based on the study of the Project Documents, we also note that, as at the date hereof, the Project permits all the parties involved to communicate and apply all functionality as they deem fit.

Considering the above, we come to the conclusion that in the case under consideration the managerial efforts of the promoters are not *"undeniably significant"* or *"predominant"* in terms of development and launch of the Project.

Since any project has not only a development stage, but also an operational stage, for the purpose of a comprehensive analysis, we also consider it necessary to pay attention to how it is planned to maintain the Project at the post-launch stage.

As it follows from the Statements of Facts *"the Company is not planning to support the secondary market for the Tokens" and "the Project is sufficiently decentralized so the Token holders would no longer reasonably expect the founders of the Project to carry out essential managerial efforts."*

Decentralization is the process by which the actions, in particular those related to planning and decision-making, are distributed or delegated so as not to be concentrated in the hands of a central, authoritarian point or group. In the context of blockchain technologies, decentralization eliminates the need for unified management and promotes distributed and autonomous decision-making by independent participants. Decentralized community is the management model where control belongs to all users, and not to any one person or group.

As can be seen from the concept of decentralization, it is based on the distribution of competencies in such a way that the actions (or efforts) of one individual or group could not have a dominant influence on the entire system.

In the SEC vs. TELEGRAM GROUP INC. and TON ISSUER INC. the court stated:

"*In the abstract, an investment of money in a cryptocurrency utilized by members of a decentralized community connected via blockchain technology, which itself is administered by this community of users rather than by a common enterprise, is not likely to be deemed a security under the familiar test laid out in S.E.C. v. W.J. Howey Co., 328 U.S. 293, 298–99 (1946).*"

Taking into account the statement of the Company that "*the Project is sufficiently decentralized*", and with due regard to the court's position described above, we tend to believe that the viability of the Project at the operational stage does not depend solely on the managerial efforts of others.

Therefore, this prong is more likely not to be satisfied.

VI. Summary and Conclusion

Based on the information and facts described in the previous paragraphs and subject to all assumptions and qualifications, we believe that the Token is not a security.

The Token appears to satisfy the first prong of the Howey Test, and no one may reasonably conclude that the courts will determine otherwise.

The second prong is more difficult and debatable. However, our analysis has concluded that this element is not satisfied under both theories applied by the federal courts.

The second prong is more difficult and debatable. However, our analysis has concluded that this element is not satisfied under both theories applied by the federal courts.

The third prong is more likely to be satisfied.

The fourth prong of the Howey Test is not satisfied.

To conclude, since not all the elements of the Howey Test are met, in our opinion, the Token does not meet the legal definition of a security under the United States law.

Nevertheless, it should be noted that only the United States court may definitively determine whether the Token is a security, based on its opinion and regulatory enforcement.

IN THE PROCESS OF PREPARING THIS LEGAL OPINION, WE ANALYZED ONLY THE PROJECT TOKEN PRI FOR ITS COMPLIANCE WITH THE HOWEY TEST.

WE HAVE NOT ANALYZED OTHER PROJECTS THAT THE FOUNDERS COULD USE IN THE FUTURE ON THE PLATFORM. ACCORDINGLY, THIS LEGAL OPINION MAY NOT BE COUNTED AS A PROFESSIONAL ASSESSMENT OF THE LEGISLATION BY THE EXCHANGE OR OTHER TOKENIZATION PLATFORMS.

THE ABOVE ANALYSIS IS BASED ON INFORMATION OBTAINED FROM A REPRESENTATIVE OF THE PROJECT, THE PROJECT DOCUMENTS, AND ITS WEBSITE. THE SEC OR A COURT OF COMPETENT JURISDICTION MAY REACH AN ALTERNATIVE CONCLUSION TO THAT STATED IN THIS LEGAL OPINION LETTER. NO WARRANTIES OR GUARANTEES OF ANY KIND AS TO THE FUTURE TREATMENT OF USERS OR SIMILAR TOKENS ARE BEING MADE HEREIN.

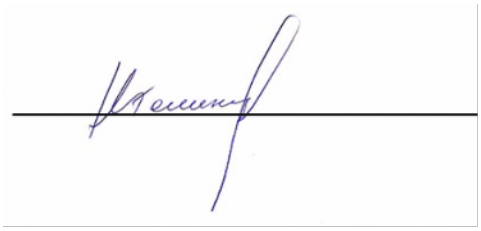
NOTICE TO RESIDENTS OF THE UNITED STATES

IF YOU ARE FROM THE UNITED STATES OF AMERICA, WE HEREBY INFORM YOU THAT TO THE BEST OF OUR KNOWLEDGE, THE OFFER OF SALE OF THE PRI TOKEN DOES NOT REPRESENT THE SALE OF A SECURITY. THEREFORE, THE OFFER OR SALE IS NOT REGISTERED IN ACCORDANCE WITH THE UNITED STATES SECURITY LAWS. IN CASE YOU BELIEVE OTHERWISE, PLEASE CONSULT WITH YOUR LEGAL COUNSEL AND NOTE THAT NO ACTION MAY BE BROUGHT ON THE BASIS OF THIS LEGAL OPINION.

Nikita Tepikin,

Lawyer, LLM, Esq. NY License Attorney

Registration number 5251814



Legal Kornet

APPENDIX NO. 1

Legal Kornet

Appendix 1

ASSUMPTIONS

(a) All documents are authentic, accurate, and complete and all copies submitted to us as certified or reproduced copies conform to the originals and such originals are authentic, accurate, and complete, and no relevant document, information or arrangement has been withheld from us.

(b) All facts, statements, representations, and/or information expressed in the documents and Instructions are and remain true, accurate and complete in all respects and not misleading due to the omission of any material matter, and we express no opinion on all such facts and information.

(c) All documents remain and will remain in the form reviewed by us, without amendment or supplement (whether in writing or otherwise).

APPENDIX № 2

Legal Kornet

Appendix 2

QUALIFICATIONS

(a) This Legal Opinion is limited and relates solely to US Federal security law as at the date of this Legal Opinion. This Legal Opinion is confined to matters of US laws and is given on the basis that it will be governed by and construed in accordance with the laws of US. Accordingly, we do not express or imply any opinion whatsoever as to any laws other than the laws of US and we have made no investigation of any other laws which may be relevant to the documents submitted to us.

(b) Our statements on the provisions of Part III of the Securities Exchange Act discussed in this Legal Opinion have been given on the basis of our interpretation of the relevant provisions, current practice, and the positions expressed by the documents, and accordingly, where we provide a statement in this Legal Opinion, we are expressing our view but this does not guarantee that a court or any other regulatory authority of US would necessarily come to the same view.

(c) This Legal Opinion is also given on the basis that we undertake no responsibility and are under no obligation to advise you of any other matters, including any matters in relation to any additional features of the Tokens that may be introduced in respect of the Tokens that are not set out in the documents and the instructions.

(d) This Legal Opinion is addressed to, and for the sole benefit of, the Company, and except with our prior written permission, may not be transmitted or disclosed to or used or relied upon by any other person for any purpose or filed with any governmental agency or other person (other than pursuant to an order of a court of US).

APPENDIX №3

Legal Kornet

To whom it may concern

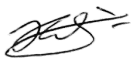
Legal representation and guarantees

Hereby you provide the following representation and guarantees in relation to the _____ (_____website) (hereinafter - "**the Project**") and the token of a Project (hereinafter - "**the Token**")

You,_Družstvo PRIVATEUM GLOBAL_, represented by Karen Abrahamyan provide the following representation and guarantees in relation to the Privateum Global(Privateum.com website) hereinafter (the - "**Project**") and the token of a Project.

A. that, if you are an individual user, you are 18 years of age or older and that you have the capacity to contract under applicable Laws;
B. that, if you represent a legal entity, (i) such legal entity is duly organized and validly existing under the applicable laws of the jurisdiction of its organization; and (ii) you are duly authorized by such legal entity to act on its behalf;
C. that the Project does not intend to sell shares, derivative instruments or securities;
D. that offer for sale of the Token does not constitute or form part of, and should not be construed as, any offer for sale or subscription of, or any invitation to offer to buy or subscribe for, any shares, derivative instruments or securities, nor should it or any part of it form the basis of, or be relied on in any connection with, any contract or commitment whatsoever.
E. that Project does not promise any dividends or any other passive income to the holders of the Token and that the Token does not represent a share of the Project or give a rise to request an ownership right from the Project whatsoever.
F. that you are not from **Prohibited Jurisdictions"** means Cuba; Democratic People's Republic of Korea (North Korea); Iran; Pakistan; Singapore; Syria; the Government of Venezuela; and Crimea;
G. that you are not from **"Sanctions List"**[1] and you are not a "**Sanctioned Person"**[2]
H. that you will not use funds received from the token sale in order to conceal or disguise the origin or nature of proceeds of crime or terrorist financing, or blocked property, frozen assets, economic resources, or corruption related to any person or government official under any applicable laws, or to further any breach of applicable AML Laws or CTF Laws, or to deal in any unlawful digital tokens, fiat, property, funds, or proceeds;

Name: Karen Abrahamyan
Title: CEO
Date: 22/03/2023



_____
(signature)

1

refers to any person or digital tokens address that is: (i) specifically listed in any Sanctions List; or (ii) directly or indirectly owned 50 percent or more by any person or group of persons in the aggregate, or a digital tokens wallet associated with such person or persons, referred to in any Sanctions List, or government or government official of any Prohibited Jurisdiction, and (iii) that is not subject to any government approval or otherwise not sanctioned, restricted, or penalized under applicable laws;

means the "Specially Designated Nationals and Blocked Persons" ("SDN") List and the Non-SDN List, including the "Sectoral Sanctions Identifications List", published by OFAC; the Section 311 Special Measures for Jurisdictions, Financial Institutions, or International Transactions of Primary Money Laundering Concern published by FinCEN; and, any other foreign terrorist organization

APPENDIX №4

Legal Kornet

PRIVATEUM GLOBAL WHITEPAPER

VERSION 3.0

PROBLEM STATEMENT

- Privacy and legal protection have become a critical requirement for financial organizations to maintain the trust of their customers.
- Lack of legal protection: it implies that there are no clear laws or regulations in place that protect financial privacy.
- The crypto market is very unstable because of a small number of projects that are solving financial problems such as high transaction fees, slow transaction times, lack of financial access worldwide, less transparency, insufficiency in privacy, currency volatility etc.
- Lack of time proved, reliable and secure digital asset storage solution without risk of losing assets.

INTRODUCTION

What is Privateum Global?

Privateum is the only **Secure**, **Global**, **Safe** and **Sustainable** financial cooperative Platform **Owned by its Members,** which provides privacy and legal protection to its members.

PRIVATEUM GLOBAL FACT SHEET	
OWNED BY MEMBERS	Based on **Cooperative Business Model,** it's the only democratic business model aligned with Blockchain's core idea and values.
SECURE	Platform solution based on **Consortium Blockchain Architecture** and running in protected network governed by trustworthy members only
	Zero trust approach and the best in industry security solutions, unique to Privateum (**Ghost Network**) provide detailed monitoring and secure transactions.
	The most valuable financial assets can be stored in a protected **Vault,** which will be accessible by only hardware key and real-time owner verification. All the financial activities will be audited and monitored by a 3rd party independent worldwide known audit organization.
GLOBAL	Privateum Global **Connects Producers and Consumers** from all over the world and provides unique and high-quality products, services, technological solutions, and expert knowledge.
SAFE	Privateum members will get access to the platform only after successfully passing the **KYB/KYC** process in **Legal Partners Network.**
	Using **PoA Algorithm** which is the most sustainable and eco friendly solution in blockchain technology.
PRIVACY & LEGAL PROTECTION	Member's information will be managed **Exclusively by Legal Partner (attorney)** and will be protected by client-attorney privilege.
	End-to-End Encryption: Information is protected from everyone, even from us.

Summary of Our Products & Services

Privateum Global technological platform for financial system integration is based on the **Consortium Blockchain Technology,** where banks, insurance companies, borrowers, lenders, stores, groceries, big and small businesses can integrate within one global ecosystem.

Privateum Global provides businesses the ability to connect to the platform and make the most out of it while excluding current limitations such as companies neglecting quality over quantity, not being able to connect with better suppliers and manufacturers, and helps in cutting excessive costly procedures.

There are no users left out of this solution as the architecture allows for the inclusion of **B2B**, **B2C**, and **C2C**.

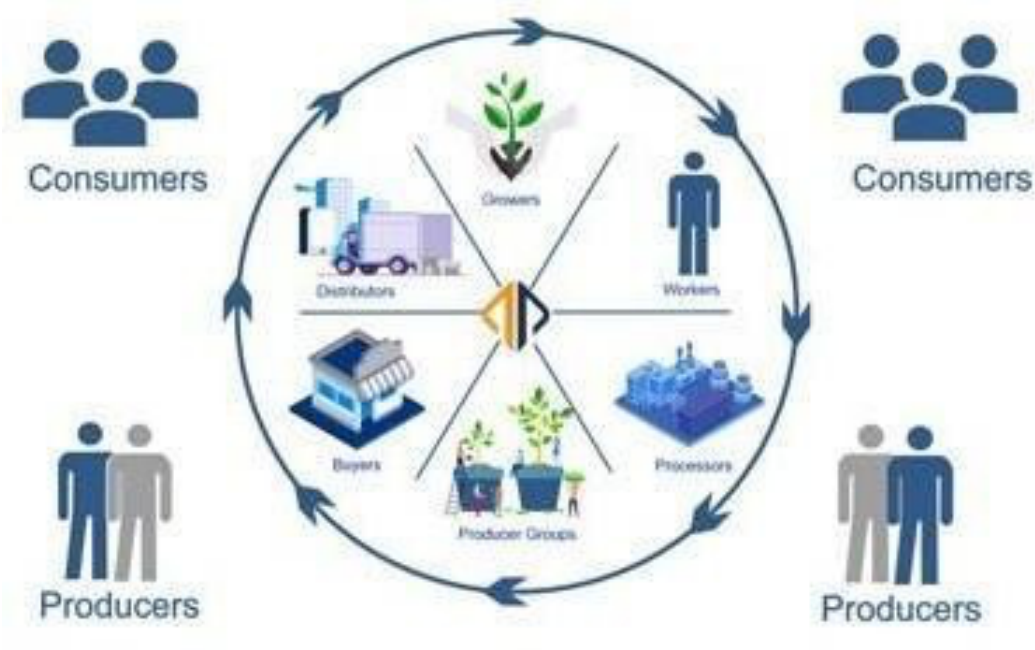
B2B – Due to **Privateum Global Cooperative** structure businesses can enjoy tax advantages and access to a wide range of services and products offered by other members worldwide.

B2C – Privateum Global connects platform members to the global businesses within **Privateum Global Cooperative** international consortium, allows exchange of high quality services and goods using internal stable tokens with **extremely low fees or no fees at all** based on type of an operation. More details of the transaction fees will be published later on a separate statement. Businesses can quickly grow by joining our strong and global community of producers and consumers where each member will benefit from Privateum Global Cooperative advantages.

C2C - **Privateum Wallet** connects people around the world to transfer digital assets through Cooperative platform network and convert PRI token to internal tokens through **Privateum Blockchain** network.

Privateum Wallet users will get exclusive service to store their most valuable digital assets in the most secure **Privateum Vault** accessible only to them.

PRIVATEUM GLOBAL PRODUCTS & SERVICES		
ISSUE	**PRODUCT**	**SOLUTION**
Privacy	Privateum Wallet	Cooperative members exchange assets in private network
Digital Assets Secure Storage	Privateum Vault	Secure storage accessible only by the owner
Scams & Frauds	KYC & KYB Platforms	Business and user verification will guard against illegal activities
Producer & Consumer Challenges	Privateum Global Cooperative Business Integration Platform	Global business expansion by removing lots of bureaucratic hurdles and easy cooperation between producers and consumers both locally and globally
Legal Issues	Legal Partners Protection	Attorney-client privilege securing from illegal intrusions



We are building a legally protected Fintech platform based on a **Cooperative Business Model** and **Consortium Blockchain Architecture,** which is designed to integrate global businesses, services, and consumers.

Privateum Global will strengthen local communities to support local businesses and expand globally within our business and community network with drastically reducing red tape where there are risks of fraudulent activities.
In the cooperative business model, participants' costs for products and services sold under the Project will be lower.

In the cooperative business model, the costs of the products and services will be lower

Patronage for Cooperative Members

Patronage rewards are bonuses distributed among the participants of the Platform in accordance with the volume of their activity within the Project such as buying or selling goods or services within the Platform, participation in voting, swapping PRI, etc.

The economic background for such Patronage formed by the following sources:

- Advertising revenue within cooperative platform
- Privateum goods and services
- Membership registration, termination and subscription fees

PRIVATEUM GLOBAL BUSINESS MODEL

A cooperative is a voluntary association of people with collectively owned funds, organized on the democratic principle of equality, who join to supply for their requirements through mutual action, and in which the objective is high-quality goods and services, local communities and business support.
Cooperatives are active in every sector of the global economy. It is well known, while the global economy keeps getting more efficient and generating more value, most people are getting a smaller and smaller portion of it. The investor-owned companies that dominate our economy are geared to maximizing shareholder value, more than pleasing customers, creating jobs, supporting communities, or benefitting society and ecosystems.
Cooperatives are formed to balance the massive growth of inequality between the world's rich and poor; an issue that, if not addressed, has major economic, social, cultural, environmental, and political consequences. They empower people to improve their quality of life and enhance their economic opportunities through self-help.
The work of the Cooperative will be financed through the sale of advertising as well as contributions from users of the Platform.

Business Model Comparison Cooperative vs. Corporate

	COOPERATIVE	CORPORATION
PURPOSE	provide services, benefit members	Generate wealth for shareholders
DISTRIBUTION OF PROFIT	Profit is distributed proportionate to the member's use of the cooperative services	Based on number of shares held
FINANCING	Member capital contributions	Shareholder investment
TAX STATUS	Non-member profits and any undistributed member profits taxes, unless non-profit	Corporate tax, unless non-profit

The Cooperative Business Model is mainly based on the idea that those who use an enterprise (the members) should also own and govern it.

Privateum Global Cooperative's purpose is to connect individuals, businesses, or other co-ops under a legal representative's umbrella to realize their **economic, cultural** and **social** needs**.**

Privateum Global is a multi-tier cooperative global network, with all the benefits of legal protection, equal opportunity, and access to all its partners and members.

We are creating a cooperative business model, implementing a supporting platform, developing technologies, and delivering innovations for the crypto market by applying true and tested frameworks and methodologies.

PRIVATEUM COOPERATIVE MODEL PROVIDES	MEMBERS RECEIVE
Fast and secure local/international transactions with extremely low fees or no fees at all	Legally protected financial services within global partnership network
Legal protection, privacy, confidentiality	Easy access to secure and private infrastructure for asset SELF-management worldwide.
ability to deposit assets into cooperative	Rewards for active users based on patronage
Access to growing global community network	Voting rights
Increase group purchasing power and cut operational cost through service sharing	Reduce production costs to provide competition to larger companies with deeper pockets
Community support to local businesses	Equal opportunity to start and grow business with minimum investments and platform support
Subscriptions for local goods and services	Quick access to high tech solutions and global expertise
Global business expansion within our trustworthy partners' network	Technological, innovative, and financing support programs for our partners' business growth
Cooperative members' financial privacy and freedom	Flexibility in transferring assets securely and privately worldwide
Secure and globally accessible marketplace	wide range of possibilities to buy and sell goods and services without borders and limitations from trusted members

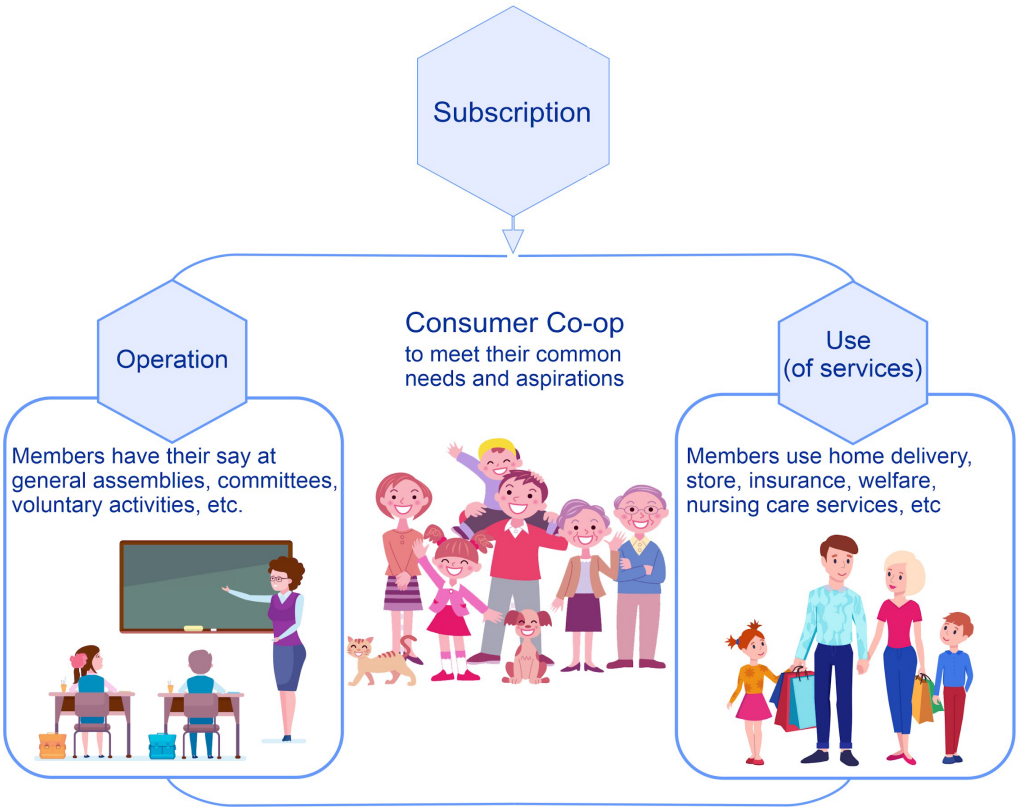
How Does a Cooperative Model Work?

In many ways, cooperatives look like other businesses. They have similar physical facilities, perform similar functions, and follow business practices. They are usually incorporated under state law by filing articles of incorporation, granting them the right to do business.

The organizers draw up bylaws and other necessary legal papers. Members contributing to capital raise, elect a board of directors, by participating in the management of the business. The board sets policy and hires a manager to run the day-to-day operations.
The differences are found in the cooperative's purpose, its ownership and control, and how benefits are distributed.
The cooperative business model combines not only the best of small business ownership and a corporation, but it also provides governance, potential for longevity and limited liability, like a corporation.

It has two key advantages.

- The first is how well it supports local, economic, business and community development.
- The second is how versatile the model is – capturing both a small, mom & pop shop or a multi-stakeholder global enterprise, and just about everything in between.



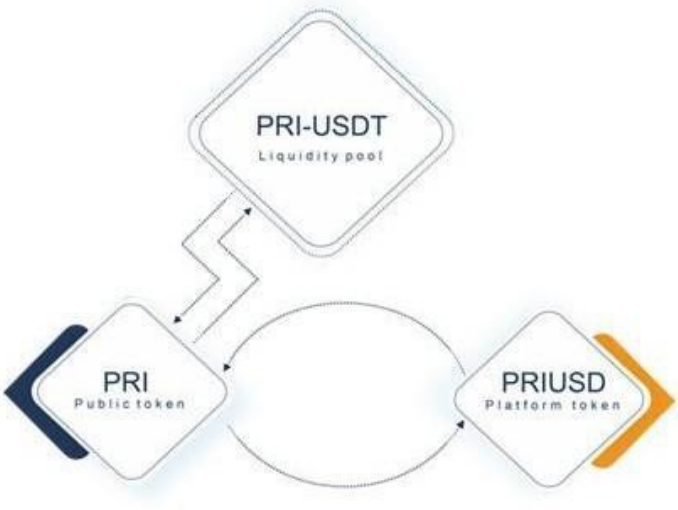
Joining Privateum Global Network **Consumer Cooperatives** and their members will benefit from purchasing daily necessary commodities at the optimum price.
This is a great opportunity for **Consumer Cooperatives** for the betterment of their members.

CONSUMER COOPERATIVE ADVANTAGES	MEMBERS RECEIVE
Goods and services at a reasonable price	Consumers usually purchase the products at a high price. But by establishing a cooperative society they get privilege on every purchase (Patronage program). Members get products and services at reasonable price
Supply of goods according to choice	Cooperative collects taste and choice goods for the members to find the best quality and price provider
Elimination of middlemen	This cooperative purchases the products and services from an original producer or supplier and supply the members directly without middleman
Regular supply of goods	Cooperative supplies the goods regularly according to the demand. Consumers feel relax to get standard goods and services at reasonable price

Increase group purchasing power and cut operational cost through service sharing	Reduce production costs to provide competition to larger companies with deeper pockets
Community support to local businesses	Equal opportunity to start and grow business with minimum investments and platform support
Subscriptions for local goods and services	Quick access to high tech solutions and global expertise
Marketing facility	Members get marketplace to sell and buy goods and services
Development of social relationship	All regional consumers are strongly involved with the cooperation. That's why it creates a positive social relationship with the people

TOKENIZATION AND TOKENOMICS

PRI Token Utilization Model

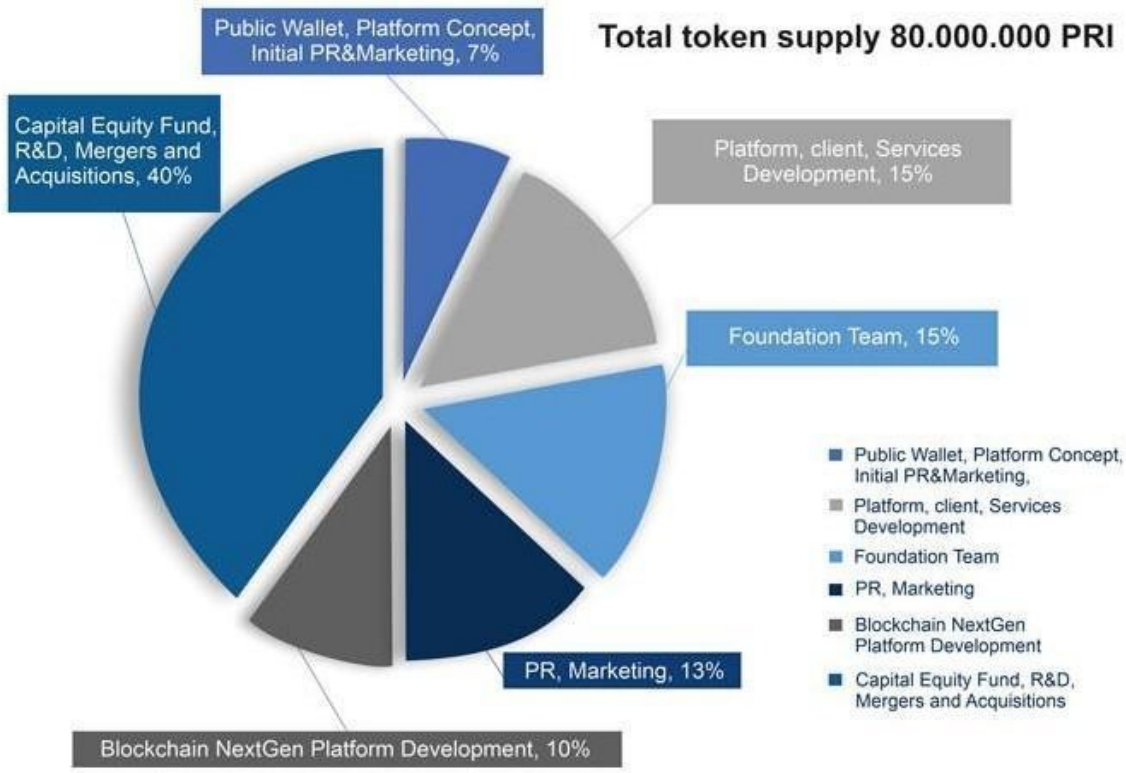


Token allocation of **80,000,000 PRI** is performed in the following proportions:

- Initially, 5,600,000 PRI will be distributed at the presale/private sale stage. Private sale is entitled to 30% of the total 5,600,000 PRI at a price of 0.2$. Pre-sale will consist of the remaining 70% of the total 5,600,000 PRI at a price of 0.35$. Funds from sales will be used for product MVP (Public & Private wallets and Marketplace) releases, Privateum Platform concept development and testing, also will be used for PR & Marketing

- The main sale stage (ICO, IEO, IDO, IEL) distributes PRI via public multistage distributions. Below is the list of reserve funds by specific purpose and rules not allowing for the funds to be reused by other bucketss

    - 15% (12,000,000 PRI) - Privateum Platform, Client and Fintech services development and business partners integration
    - Privateum Foundation is entitled to 15% (12,000,000 PRI)
    - 13% - PR & Marketing
    - 10% - Privateum Blockchain nextgen platform development
    - 40% - Capital equity, mergers and acquisitions fund for continuous business and revenue growth needs



IMPORTANT:

80 Million PRI Tokens are enough for transitioning Privateum Global from the very beginning to the stage of cooperatives global network sustainability. The only scenario where it might be needed to mint additional **PRI** tokens is to ward off any hostile takeover threats to the platform, which can affect platform sustainability for our members.

Here Privateum Global considers the cryptocurrency part of the solutions, highly relying on offline processes and everyday life. The majority of principles were outlined in the previous section, laying framework and underground to the general perception of the overall system principles and regulation mechanics. Privateum Global is trying to give a broader understanding of overall token flows.

First, it is necessary to mention, that the cooperative assets are being formed from

- The initial sale of **Cooperative Tokens** for fiat money and other cryptocurrencies.
- **Member Capital Contributions** (comes with the right to participating in the management of the business)
- **Disbursement of Cooperative Tokens** as means of transaction fee payments.
- **Voluntary Participation**.
- **Income from Offline Assets Management** through internal Trust/Foundations and other commercial activities.

In addition, users of the Platform can contribute goods or other assets (real estate, intellectual rights and property), as well as services, to the cooperative.

The personal wallet of cooperative members contains balances in different assets, primary cooperative sector, and linked KYC name, along with the verification sector date and datum. Wallet functionality assumes availability of deposit and withdrawal of PRI Token assets, access to internal exchanges and trading platforms, cooperative sector changing, help and FAQ sections, sectoral online activity tools, available cooperative programmes, and other useful links. Apart from the deposit and withdrawal functionalities, the Privateum platform also offers several other features and services to its users. These include staking, voting rights, patronage, and the use of PRI token as a fee mechanism for all available transactions,

such as buying or selling on the marketplace, swapping, and more.
Privateum Global assumes, that there are only 4 types of simple operations within the union of co- operatives globally:

- **Exchange goods and services**
- **Registration, termination, subscription**

Membership of a cooperative is active and valid if the member (private person or legal entity) has passed **KYC** with an appropriate lawyer (cooperative sector) and contributed equity in **PRI**.

After **KYC** verification, the equity can be transferred between members.

Private Wallet is a technical tool which provides access to the Privateum Platform and ability to manage cooperative digital assets. So, the number of wallets for one member is practically unlimited. Each wallet is active until it contains at least one PRI token. Each valid and active member has at least one active wallet. Union of cooperatives boards of a higher level can override decisions of lower-level boards.

- **Contributing Equity**, including depositing cryptocurrency to the appropriate wallet, providing goods/money/services to be included in the overall cooperative balance. Usually, that's a non-taxable operation.
  Depositing crypto to a private wallet is considered a contribution in a cooperative or an exchange to the platform token for goods and services exchange operations. Providing a cooperative with goods/money deposits is a standard functionality, available in the real world. Services are subject to the prior sector board approval, getting their token or money value upon second board approval at the time of acceptance of such services. Tokens have their predetermined value.

BASIC PRINCIPLES

Specifics of tokenization for the proposed solution is in absence of any ready legal international infrastructure, so technological solutions are in development along with institutional capacity building and expansion of membership.

Thus, it will be easier to build legal infrastructure around technological platforms and promote appropriate offline services tied seamlessly to the software.

As the technology is for serving, in some meaning, separate community, it can be implemented via custodial secure solution, leaving authentication means to members as means of accessing cooperative system wallets, containing crypto currencies and digital assets, latter not necessarily unequivocally linked to appropriate crypto wallets, moreover, with no direct access to authorization keys of such crypto wallets, as it was explained above for the case of institutionally mediated private value exchange. As the proposed technical solution is in-house, it is turning out to be a way to digitize internal business processes, along with tokenization of internal assets.

The following key points should be considered, for the turnover of crypto flows inside the cooperative.

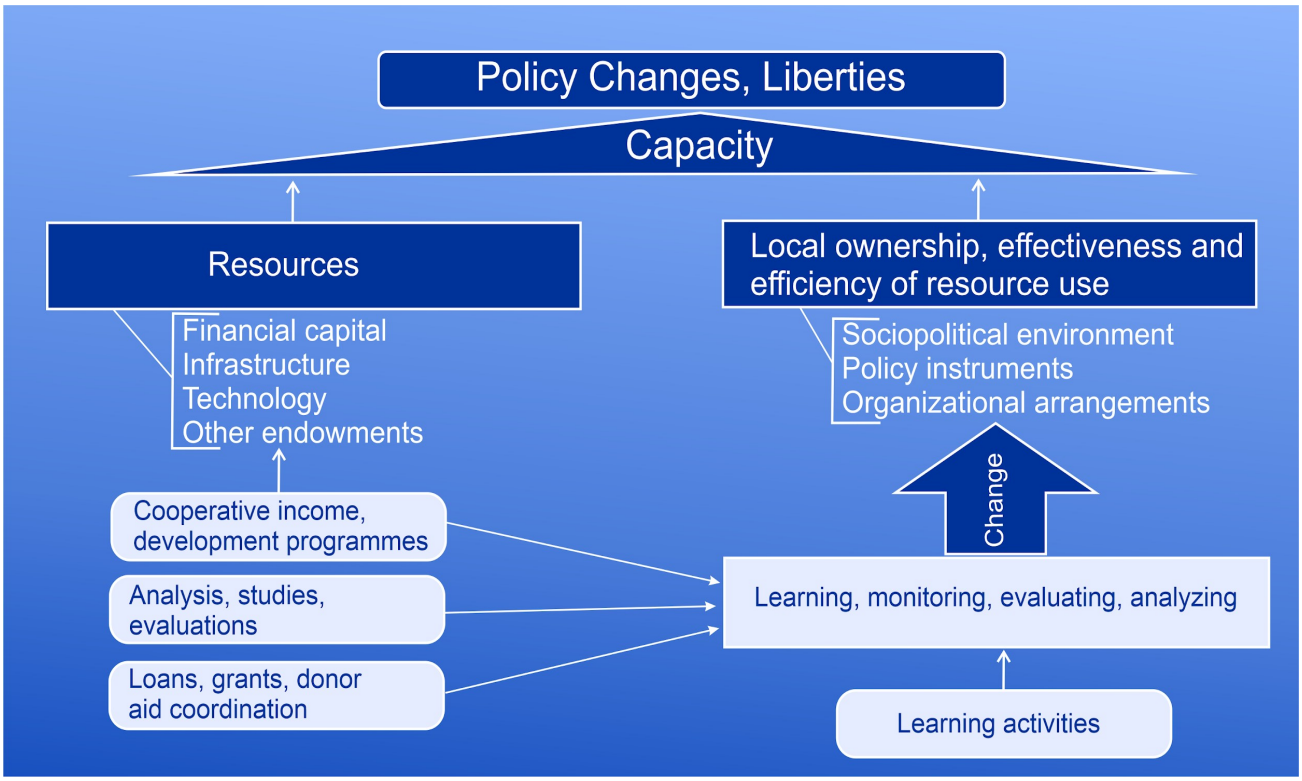
1. Initial wallet registrar or verifier can be the very advocate/lawyer, charging the new-comer with **Cooperative Token** for identity verification and initial community services.
2. New wallet should subscribe to our platform services after successfully passing **KYC/KYB** verification.
3. Each internal transaction assumes a commission-free in **Cooperative Asset Token (E.g.: PRI USD equivalent to 1$).**
4. External currencies and goods inflow and outflow through operations of **Cooperative Token** can be treated as cooperative divvy transactions.
5. Those participants who are PRI holders will be able to unlock the exclusive service and participate in the management of the Project.
6. The function of additional **PRI** emission and internal buy-back of necessary amounts of **Cooperative Tokens** for leveraging the rate should be carried out by the Cooperative Trust/Foundation. Upon development of overall infrastructure both offline and online, there can appear a limited number of Super Nodes.
7. Internal nodes, serving overall infrastructure, can be additionally placed in members infrastructure after gaining trustworthiness high scores.
8. Over time and due to the increase in transactions within the Platform, it may lead to an increase in the capital of the Cooperative.

Cooperative assets in foreign currency can be managed through banking and fintech structures with paid membership in the Cooperative.

The details of such initiatives are part of the general practice of cooperatives around the world and are usually approved in advance by a decision of the relevant council of the cooperative.

In the light of above-mentioned approaches, Privateum Global considers its solution capacity for development is the availability of resources and the efficiency and effectiveness with which cooperative members deploy those resources to identify and pursue protection of their financial liberties on a sustainable basis both internally and externally through lawful policy changes requests to appropriate regulating and governmental bodies.

Hence, Privateum Global supports joint cooperative capacity development as a locally driven process of learning by member community leaders, cooperative sectors, and their appropriate certified/licensed lawyers to be the agents of change that brings about changes in sociopolitical, policy-related, and organizational factors to enhance local ownership for and the effectiveness and efficiency of efforts to achieve balanced legislative and common practice level of privacy in financial transactions.

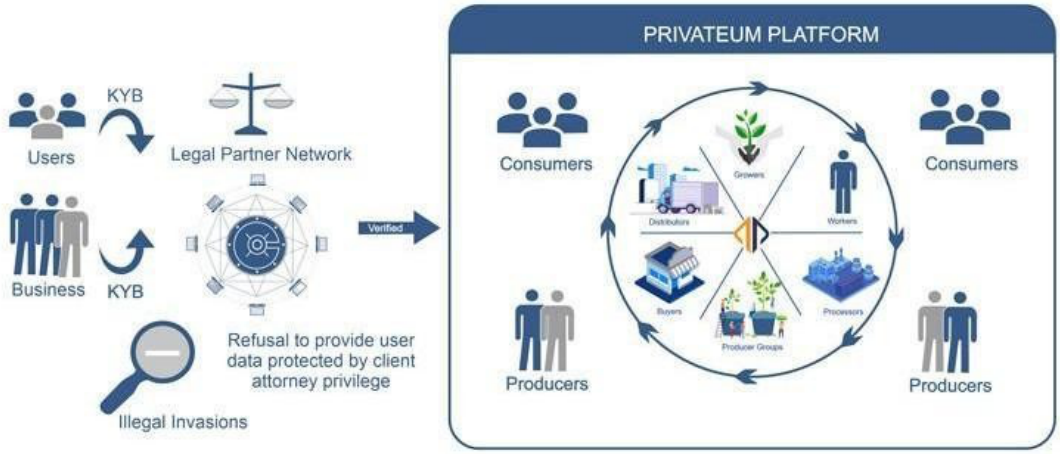


So, in view of the above-mentioned, Privateum Global considers that organizational capacity building is a commitment to continuous improvement, typically over a multi-year basis, to build an effective organization capable of delivering its mission now and in the future.

Usually, technological solutions resolve a certain need of a specific community, by gathering different stakeholders with similar interests.
Contrary to that approach, the overall proposed solution is suitable for any type of mixed community, serving the needs not only price-value competitiveness, but rather of joint good of the united community in general, including re-distribution of internally generated value and purchasing power to implement mutual support activities and coordinate integrated policy making.

In the light of the above mentioned, neither legal solution, nor technical one can be disclosed to the public to preserve integrity and save them from possible external intrusion attempts. Additionally, the harmonization of cooperatives internal rules is an ongoing international process, highly relying on changing code of conduct and legal practice, so each new country covered is a necessity to expand and enrich existing procedures to meet new jurisdiction requirements.

PLATFORM HIGH LEVEL DESIGN

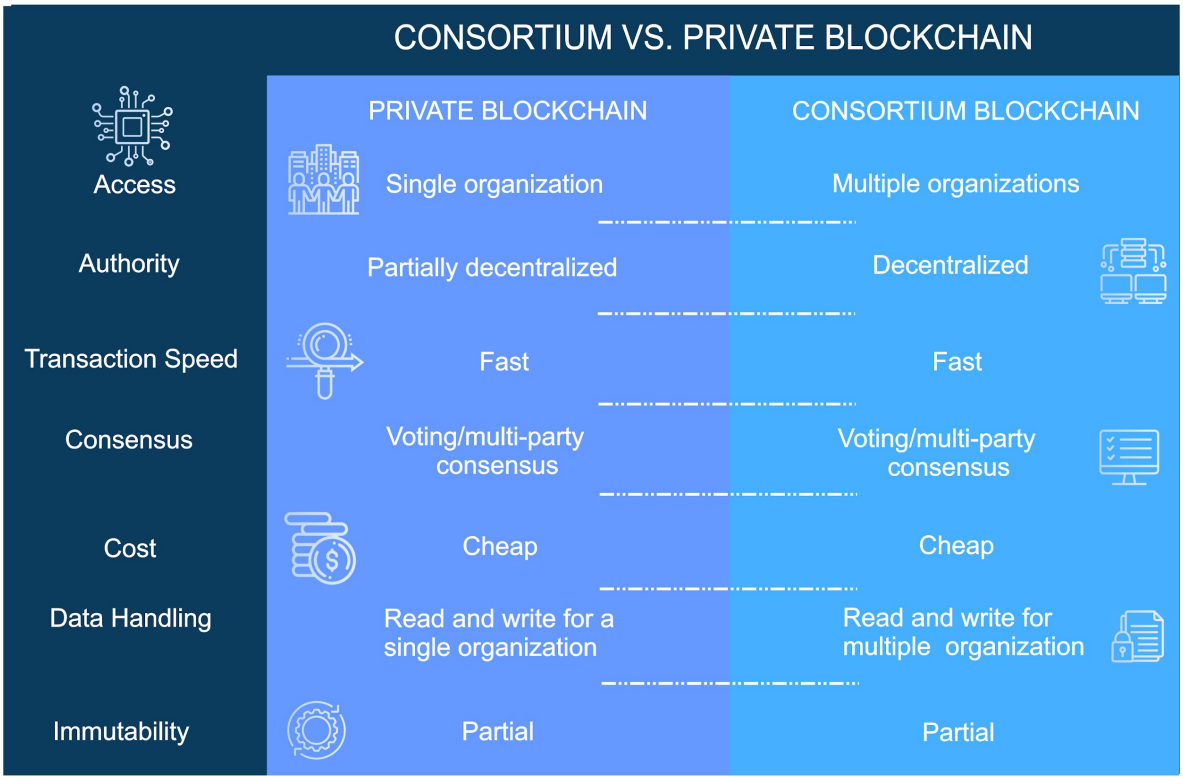


PRIVATEUM NETWORK (BASED ON ETHEREUM)

Privateum network, based on 'consortium" blockchain technology, in many cases is similar to private networks. Customized Ethereum clients of our enterprise platform made **Private**, **Secure**, **Fast** and **Cost Effective**. Being private we still can take advantage of the Ethereum blockchain platform.

Access to the network is secured with the API Gateway for communicating with trusted clients.

The primary **API JSON-RPC** is needed for integrations only. Any access to the smart contracts is closed from outside.



Cloud Agnostic Infrastructure

Mix of self-hosted cloud agnostic cluster nodes with geo-redundant failover clustering to diversify infrastructure and to ensure maximum network uptime and connectivity at scale. First release **SLA** goal is 99.9% planning to reach 99.99% availability in 2022 with scaling multi-cloud infrastructure strategy.

Secure by Design

Our robust **Secure SDLC Program** covers personnel's language-specific training, threat modeling, SAST and DAST scans, vulnerability management, etc. and undergoes periodic review to ensure we are aligned with security best practices.

Privateum Global production system is built in alignment with **SOC2 Trust Principles** and **NIST 800-53 Security Controls.**

Deployment automation is heavily utilized to decrease the possibility of human errors. Privateum Global DevSecOps team is continuously working on expanding network and applications coverage by automated security tests.

Encrypt Everything, Know Nothing & Zero Trust

End-to-End Encryption: from a browser or mobile application down to data stored in the Privateum system, information is protected from everyone, even from us.

Data in transit is encrypted with TLS 1.2 or higher.

Data at rest is encrypted by default using AES-256 with scheduled key rotation. There are added permission features along with identity management to offer a permissioned network. Any access to infrastructure is granted based on a user's identity & context, with continuous monitoring and validation of privileges.

Follow the Sun Support

Privateum systems and data are geo-redundant and load balanced. This ensures that the systems keep running in the event of a sub-system failure and data can be restored from encrypted backup stored in multiple physical locations if necessary

Eco-Friendly & Cost Effective

Proof of Authority (PoA) is the algorithm used in **Privateum Ghost Network**, that delivers comparatively fast transactions through a consensus mechanism based on identity as a stake. Master nodes that fail to participate in quorums that provide core services are penalized, which eventually results in them being excluded from master node payment eligibility.

Unlike the Proof-of-Work mechanism, commonly referred to as "mining", there is no technical competition between validators here. This consensus mechanism requires almost no computing power, and therefore significantly less electricity for its operation. It will not require many nodes to support a similar number of transactions from the public Ethereum network. With customized consensus, block time and gas limit can outperform public Ethereum and scale thousands of transactions within a second.

PRIVATEUM GLOBAL GHOST NETWORK

In most cases, the **PoA** algorithm is being used with staked authority which is a combination of PoA and PoS. Blocks are produced by a limited set of validators, they are elected in and out based on a staking based governance. Validators take turns to produce blocks in a **PoA** manner. The only security guarantor in this model is the **Staked** (deposited) **Tokens**.

The Privateum team designed the **Ghost Network** product to keep the network safe and secure.

Ghost Network is a multi-layer security product which monitors and controls the system from tampering and orchestrates nodes automatic provisioning and disposal. Any tampered Node will be automatically removed from the network and the owner will lose authority to become a validator.

DISCLAIMER

IF YOU HAVE ANY DOUBTS AS TO WHAT ACTIONS YOU SHOULD TAKE, WE RECOMMEND THAT YOU CONSULT WITH YOUR LEGAL, FINANCIAL, TAX OR OTHER PROFESSIONAL ADVISOR(S). No part of this Whitepaper is to be reproduced, distributed or disseminated without including this section.
The sole purpose of this Whitepaper is to present tokens to potential token holders. The information is provided for INFORMATION PURPOSES only.

It may not be exhaustive and doesn't imply any elements of a contractual relationship or obligations. Despite the fact that we make every effort to ensure the accuracy, up to date and relevance of any material in this Whitepaper, this document and materials contained herein are not professional advice and in no way constitutes the provision of professional advice of any kind.

Further, Project reserves the right to modify or update this Whitepaper and information contained herein, at any moment and without notice. To the maximum extent permitted by any applicable laws, regulations and rules, Project doesn't guarantee and doesn't accept legal responsibility of any nature, for any indirect, special, incidental, consequential or other losses of any kind, in tort, contract or otherwise (including but not limited to loss of revenue, income or profits, and loss of use or data), arising from or related to the accuracy, reliability, relevance or completeness of any material contained in this Whitepaper.

Further, Project does not make or purport to make, and hereby disclaims, any representation, warranty or undertaking in any form whatsoever to any entity, person, or authority, including any representation, warranty or undertaking in relation to the truth, accuracy and completeness of any of the information set out in this Whitepaper. You should contact relevant independent professional advisors before relying or making any commitments or transactions based on the material published in this Whitepaper.

You don't have the right and shouldn't buy tokens if you are a citizen or resident (tax or otherwise) of any country or territory where transactions with digital tokens and/or digital currencies are prohibited or in any other manner restricted by applicable laws. ("Person" is generally defined as a natural person residing in the relevant state or any entity organized or incorporated under the laws of the relevant state). Purchased tokens cannot be offered or distributed as well as cannot be resold or otherwise alienated by their holders to mentioned persons. It is your sole responsibility to establish, by consulting (if necessary) your legal, tax, accounting or other professional advisors, what requirements and limitations, if any, apply to your particular jurisdiction, and ensure that you have observed and complied with all restrictions, at your own expense and without liability to Project.

Tokens PRI are not and will not be intended to constitute securities, digital currency, commodity, or any other kind of financial instrument and have not been registered under relevant securities regulations, including the securities laws of any jurisdiction in which a potential token holder is a resident.

This Whitepaper is not a prospectus or a proposal, and its purpose is not to serve as a securities offer or request for investments in the form of securities in any jurisdiction. However, in spite of the above, legislation of certain jurisdictions may,

now or in future, recognize PRI tokens as securities.

Project does not accept any liability for such recognition and\or any legal and other consequences of such recognition for potential owners of PRI tokens, nor pro- vide any opinions or advice regarding the acquisition, sale or other operations with PRI tokens, and the fact of the provision of this Whitepaper doesn't form the basis or should not be relied upon in matters related to the conclusion of contracts or acceptance investment decisions.

APPENDIX №5

Legal Kornet

To whom it may concern

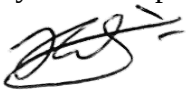
The Statements of Facts

March 29, 2023

Družstvo PRIVATEUM GLOBAL (hereinafter the **"Project"**) represented by Karen Abrahamyan provide the following statements of facts in relation to the Project and the token of the Project (hereinafter the **"Token/Tokens"**).

As at the date hereof:

- The Company has started selling Tokens.
- The Project is at the final stage of development and will be launched in the near future.
- Token holders can exercise real and substantial control over the Project through voting.
- The Company does not promise any ownership or equity interest in a legal entity, including a general partnership.
- The founders of the Project retain a stake in the Project.
- The Tokens are marketed to a specific group of potential users of the Project.
- It is assumed that the Tokens are primarily held in amounts needed for expected use.
- The Tokens can be practically used in the Project.
- The Company does not promise any passive income or dividend distribution.
- The Company sells/will sell the Tokens to general public, not to sophisticated investors.
- The marketing materials distributed do not contain any information about how the Tokens can be used for profit.
- The amount of benefits, which can be obtained by the users of the Project, depends on their own actions/amount of spending.
- The community takes a central role in development and growth of the Project.
- The Project is sufficiently decentralized so the Token holders would no longer reasonably expect the founders of the Project to carry out essential managerial efforts.
- The Company does not plan to support the secondary market for the Tokens.



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APPENDIX №6

Legal Kornet

Please, reply "Yes" or "No" to the following questions. We will appreciate if you provide comments in support of your position.

Website: privateum.com
White paper of the project: https://www.privateum.com/PrivateumWhitepaperv2.0.pdf
Token: PRI

Questions of the elements of the Howey Test		**Yes or No**	**Comments**
Element 1: Investment of Money			
1	Is there a crowdsale or tokens are given away for free, or are earned through mining?	No	We have such intentions in the near future
2	Did you start the sale of tokens?	Yes	
3	How and where are the funds from token sale used/allocated?		The funds were mainly used to develop our products such as public & private wallets, marketplace, platform etc.
4.	When and how is the token transferred to the token holders?		The initial distribution of tokens were transferred via private sale till when we first entered to Hitbtc(no longer available). The private sales started 6 months+
Element 2: Common Enterprise			
3	Is the live platform (network) operational already? If not, please comment why.	No	While public wallet and website is live we still are in the development phase of marketplace and private wallet.
4	Will the token holders always receive the same returns (benefits) regardless of their own actions or efforts on the platform (network)? *For example, tokens are used as internal currency within the platform (network) and the token holders may sell services or goods on the platform (network). In this scenario, success and benefits of the token holders depend only/mainly on themselves.* *For example, the platform (network) automatically distributes to the token holders equal amount of rewards and*	No	PRI token is the public token of Privateum Global and it serves as a voting tool inside the cooperative with 1 PRI = 1 Vote. Please see the legal presentation available on website. Inside the platform there will be virtual PRI token which is the equivalent of PRI token in the public blockchain (BSC). The token holders will have benefits of the quantity of their tokens they are holding. There are no equal number of rewards. Reward mechanism has not been developed yet however the key concept will be based on active participations such as buying or selling goods or services, participation in voting, swapping tokens etc. Also there are stable virtual tokens such as PRI USD or PRI EUR (**backed with their equivalent fiat**) which will play the role of trade currencies inside the marketplace.

Please, reply "Yes" or "No" to the following questions. We will appreciate if you provide comments in support of your position.

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Token: PRI

	forms passive income for the users of the Platform. In this scenario, token holders will receive the same returns.		
5	Do you retain a stake or other interest in the platform (network) such that you would be motivated to expend efforts to cause an increase in value of the platform (network)? Would the token holders reasonably believe that such efforts would be undertaken?	Yes	The main investment is done by two people: Karen Abrahamyan and Mikayel Hasratyan. there was some private sale however they have bought them back..
Element 3: Expectation of Profit			
6	Do you promise any ownership or equity interest in a legal entity, including a general partnership? *For example, token holders are granted a share in a company or project.*	No	The holders of at least 1 whole PRI token become members of Privateum Global Cooperative. We would like to offer Patronage instead, which is a cashback/reward for their contribution inside the cooperative.
7	Do you promise any passive income or dividend distribution? *For example, token holders receive monthly rewards for subscription to the platform (network).*	No	
8	Are the tokens marketed to specific group of potential users of your platform (network)? *For example, you tune your marketing campaign to those who are interested in the data security.*	No	Public token PRI is available for everyone. Virtual PRI token can be obtained 1:1 by locking PRI token, with the possibility to redeem anytime as well as virtual PRI token can be swapped to PRI USD and PRI EUR … inside the platform. Virtual PRI token also serves as a fee mechanism there is any transaction happens.

Please, reply "Yes" or "No" to the following questions. We will appreciate if you provide comments in support of your position.

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Token: PRI

9	Are you planning to support the secondary market for the tokens? *For example, you have a Telegram channel where every day you encourage your subscribers to trade actively on the exchanges.*	No	We have active community page i.e. telegram where we mainly use for supporting our users. We do not advertise directly to buy tokens each day but instead we use it to show our ongoing updates, answer their questions and always happy to help them in case someone has difficulties of buying PRI token.
10	Is it true that tokens are primarily held in amounts needed for expected use? *For example, token holders use tokens as an access to network cloud storage of the data and keep only those amount of tokens that can be used to rent server capacities on the platform. In this scenario, tokens are used in amounts needed for expected use.* *For example, token holders primarily buy tokens in great volumes to trade on the secondary market. In this scenario, tokens actual functional and practical use is not an intention.*	Yes	No token holders do not use tokens to access to network cloud storage data.
11	Do you intend to raise an amount of funds in excess of what may be reasonably needed to establish a functional platform (network), and, if so, is it indicated?	Yes	We have such an intention to do crowdfunding to finish marketplace development in the near future in return of complex benefits inside the usage of future marketplace release, whether it is discounts in some products or services, reduction of transaction fees etc.
12	Are there built-in incentives that stimulate using the tokens promptly on the platform (network), such as having the tokens degrade in value over time, or can the tokens be held for extended periods? *For example, a token has an expiration date, after which it cannot be used,*	No	There are no expiration date for our token including the virtual tokens.

Please, reply "Yes" or "No" to the following questions. We will appreciate if you provide comments in support of your position.

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	which makes it difficult to use it for investment purposes.		
13	Do the marketing materials distributed contain information about how the tokens can be used for profit? *For example, in marketing materials, you state that after the successful launch of the platform (network), the value of tokens will increase and they can be sold at a profit on the secondary market.*	No	We do not advertise directly that the token price is going up, instead we show them where was the token price and where it is now, as well as our token constantly grows up which motivates our community and holders to buy more PRI tokens. Please check our chart here: https://coinmarketcap.com/currencies/privateum-initiative/ it grows constantly and steadily by providing the assurance that we are legitimate and trustworthy organization.
14	Do you think that your token can be practically used on the platform (network)? *For example, your token has provided its users with the several practical use cases.*	Yes	PRI token is a utility token and can serve in significant ways inside the platform. The possibilities of usage with PRI will be endless and it will be up to the holders of PRI token how to use them. One of the most common use case of PRI token will be the use of voting in cooperative's decisions in various activities, whether it is a marketing related activity, partnership activity, business decisions etc. Also PRI will be used in Private wallet as well as in marketplace activities.
Element 4: From the Efforts of Others			
15	Does the community take a central role in making decisions on development and growth of the platform (network)?	Yes	Obviously, with their votes. Currently, the voting mechanism is not well developed yet,since it will be along with the release of private wallet within the next quarter. Community members will have the opportunity to vote on various activities and campaigns, therefore can affect on on decisions on development and growth. Currently we do it via telegram channel by asking their thoughts and seriously considering their suggestions.
16	Is the platform (network) sufficiently decentralized so the token holders would no longer reasonably expect you or another leading group to carry out essential managerial efforts?	Yes	

Please, reply "Yes" or "No" to the following questions. We will appreciate if you provide comments in support of your position.

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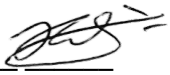
White paper of the project: https://www.privateum.com/PrivateumWhitepaperv2.0.pdf
Token: PRI

17	Can the token holders exercise real and significant control via voting?	Yes	It depends on the amount of votes (amount of PRI tokens) the holders do own, each time a voting question arises they will have the change to vote yes, no or not to vote at all, no voting means their votes are not considered.
18	Does the purchase of the tokens grant the holders with rights to manage the project? Please, comment in which way?	No	They automatically become members of cooperative and a right to vote on any decision making activity.
19	Are the tokens sold to general public or concentrated in the hands of few major stake holders? *For example, more than 50% of the tokens are concentrated in the group of founders of the project.*	Yes	
20	How and where do you market your token sale? *For example, Telegram, YouTube, LinkedIn*		Through the most famous marketing channels, all of our social media channels can be found here: https://www.privateum.com/privateum-community/

By: 

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