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Legal Opinion: APFC TOKEN

Introduction

This Legal Opinion was prepared upon request of **APF DIGITAL AGRIFUND CR s.r.o.**, a company organized under the laws of the Czech Republic, having its registered offices at Pražákova 1008/69, Štýřice, 639 00 Brno, Company No.: 142 65 681, to serve as a legal analysis of the business model, the APF Coin Token (hereinafter referred to by the ticker APFC) and its compliance with the requirements of the Listing Rules for the Trading Venue operated by Exchanges. The Law Firm is collaborating at any given time with at least twelve (12) relevant Law Firms from all major jurisdictions around the world, exchanging information and updates on the crypto development and the underlying legal domain.

This Opinion is meant to serve as our legal analysis of the APF Coin Token and conclusions are limited to the matters expressly stated herein, are fully based on information and material provided to us by APF DIGITAL AGRIFUND CR s.r.o., and no opinion or conclusion is to be inferred or may be implied beyond the opinions and conclusions expressly set forth herein. This Opinion is written in good faith, and cannot be deemed as guarantee or obligation, or ground of liability of our Law Firm. The contents of this Legal Opinion are intellectual property of the Law Firm. The Legal Opinion is not intended for public use, and it will not be used to provide any form of legitimacy or credibility to the project itself. The document has a clearly defined purpose, as stated hereinabove, it is strictly confidential, and, under the circumstances, it will not be made available to any unauthorized person or entity whatsoever, it will not be posted on the client's website, and it will not be presented publicly in any context, or on any other website or social media platform (WhatsApp, Telegram, Twitter, Discord, Twitch, etc). The document will only be used for the purposes it is being issued: the client's relationship with the centralized and/or decentralized exchanges, as the case may be. The client may not copy the document in its entirety, or parts of it, and use it in any other context that is outside the scope of this Legal Opinion. Any breach of the attorney-client privilege clause will result in direct and immediate punitive damages, as the Law Firm will deem appropriate.

For the purposes of issuance of the Opinion we have assumed without further inquiry that all factual circumstances stated in the provided documentation are a true and correct representation of actual circumstances surrounding the company and insofar as such factual circumstances are not or may turn out to be not true and correct, they will have no adverse effect on the opinions stated herein.

We hereby state that our Law Firm is EU based, and the interpretation of law is based on authority for Exchanges incorporated in the United States of America, the European Union and other relevant international areas, as described below.

Documents and Basis of Opinion

In the preparation and for the purposes of this Legal Opinion, we have examined the following documents:

- The Whitepaper submitted to us by the Client (“the Whitepaper”);
- All other documents, international laws and regulations, including all relevant US and European regulations having direct effect on the Project, which it was in our judgement necessary or appropriate for us to examine to enable us to give the opinion expressed below.

Assumptions

Our legal opinion is based on the assumptions that the Whitepaper submitted to us by the Client is correct and complete in all material respects;

The APFC Token, under the current securities law frameworks, would be tagged as a Utility Token as it would provide access to the ecosystem, wherein the APFC Token would act as a currency for the ecosystem wherein people can participate and earn rewards based on their participation. They are not designed as an investment nor should anyone interpret or invest keeping in mind the same. The APFC Tokens serve this limited yet much important function and hence can only be termed as Utility Token and not a Security as per existing Securities Law Frameworks.

As more fully set forth in the component parts of this document, the document does not constitute legal advice and should not be relied on by any person.

Business description. Key features.

As a whole concept, The APF DIGITAL AGRIFUND CR in cooperation with MIA INVESTMENTS GROUP aims to combine the benefits of digital assets with the benefits of real investments in agricultural land. Given the stable development of farmland prices in the country and market conditions, we offer clients a more conservative form of investment in crypto-assets.

The Term IEO vs. TGE

The term “IEO” stands for Initial Exchange Offering. This term is popular amongst the blockchain and cryptographic currency, and its meaning is known to be “new cryptographic token sale”. This term’s similarity to the term “IPO”, to our opinion, is only meant to serve as an easy explanation to this digital event, which is often misunderstood to the common people. It should be noted that in order to avoid confusion, a part of the blockchain community prefers to use the term “TGE”, which stands for “Token Generating Event”. Nevertheless, to be perfectly understood by the community, to avoid unfamiliar and misunderstood nomenclature, for the convenience of analysis the term ICO has been used in this document although it does not carry any special meaning in legal terms.

The Token

Three Kinds of Tokens

Generally speaking, there are three kinds of tokens that can be issued to the public:

THE PROTOCOL TOKEN: The first kind of token is the classic “cryptographic currency”. To put it simply, this token is called protocol token because what makes it special is the new or different protocol it uses. It is generally being used solely as an alternative currency, wholly digital. Its underlying blockchain serves nothing more than keeping a ledger of the transactions between token holders. It is usually mined or given away for free at issuance (either by creation of an entirely new network, either via a blockchain split event, a.k.a “airdrop”, or via some commercial sites that offer the token in exchange for some commercial participation, a.k.a “faucets”). In its initial digital issuance, this type of token is rarely exchanged for any value (sold), since initially it has no underlying or practical value at all.

THE UTILITY TOKEN: The second kind of token is being deemed by many as a coupon or a pre- paid gift card, or a coupon. This kind of token is basically a contract for provision of goods or services, to be redeemed by the token holder, once or continuously. In contrast with the protocol tokens which do not have any assets of any kind underlying them and their value is being based purely on mass psychology. The utility token has an actual underlying contractual right. Therefore, its value is determined not only by mass psychology but also by the value of the underlying right attached to it.

THE SECURITY TOKEN: The third kind of token is a digital asset, the purchase of which entitled the owner with number of rights which is similar to securities such as stocks or bonds. There are three major characteristics for an instrument to be

deemed as a security: Voting rights in a general assembly or pertaining to important decisions of an entity, profit sharing such as distributions, and/or a right to claim against the Company to redeem the instrument in exchange for a value. Therefore, a security token, for example, might offer voting rights in the issuing entity, or rights in the profits of the issuing entity (or both). The issuing entity might also promise to redeem the tokens' value when there will be enough capital to do so. These are but examples of rights attached to such tokens, which can be deemed by many jurisdictions throughout the planet to be as securities per se, which therefore require to be compliant with the securities laws and regulations.

The Underlying Token

First of all, what is the APFC Token? As stated in the Whitepaper, in the public presentations and on the website, the APFC Token is a blockchain-based cryptographic token that can be traded on the blockchain. This token will be used as the main currency on the Apfdigitalagrifund Platform as an independent store of value for users and investors, and it is the native crypto utility asset, playing a central role in the ecosystem. The native digital cryptographically-secured fungible token of APF Coin Token (ticker symbol APFC) is a transferable representation of attributed utility functions specified in the protocol/code of APFC, and which is designed to be used as an interoperable utility token inside and outside the platform.

According to the information provided to us, the APFC Token, which is the subject matter of this analysis, will be used by various kinds of users/holders to use various technologies developed by APF DIGITAL AGRIFUND CR s.r.o., which will continue the development coming forth. The APFC Token is the fundamental unit on the Apfdigitalagrifund ecosystem. The value of the APFC Token will be in its smart contract-based services, offered on the platform.

The APFC Token is a functional utility Token which will be used as the medium of exchange between participants on Apfdigitalagrifund in a decentralized manner. The goal of introducing APFC Token is to provide a convenient and secure mode of settlement between participants who interact within and outside the ecosystem of APFC. The APFC Token has a significant value for the whole platform.

APFC Token also provides the economic incentives which will be distributed to encourage users to contribute to and participate in the ecosystem on the Apfdigitalagrifund Platform, thereby creating a mutually beneficial system where every participant is fairly compensated for its efforts. One of the APF DIGITAL AGRIFUND CR s.r.o. aims is to provide diverse ways of holding benefits for the community.

The APFC Token is a utility token that can be used for payment of service fees and perform transactions between one another within the ecosystem. Furthermore, this token can be used for operations, staking, transactions, NFT smart contracts, commission payments and receiving compensation for validation operations within the platform. Lastly, it enables numerous functionalities in the distributed exchange network among participants.

It is, thus, in the company's intention that the APFC Token will be used a utility asset that can transfer a certain value between holders. Utility Tokens are digital assets that are used to finance the network and incentivize its use by providing the customers with a guarantee of being able to benefit of the full range of the network's services.

United States of America

From a US legal standpoint, the institution of "securities" is being regulated by section 2(a)(1) of the Securities Act of 1933, which defines them as: "...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."

Securities must be registered per Section 5 of the Securities Act of 1933 as stated here in above. Of course, that instrument which is not security need not be registered. Therefore, one must first examine the definition of Security:

"(a) Definitions - When used in this subchapter, unless the context otherwise requires— (1) The term "security" means 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, collateral- trust certificate, pre organization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, any put, call, straddle, option, or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, 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.” 15 U.S. Code §77b.

Similarly, the Securities Exchange Act of 1934 defines a security, in the following fashion: “The term “security” means any note, stock, treasury stock, security future, security-based swap, bond, debenture, certificate of interest or participation in any profit-sharing agreement or in any oil, gas, or other mineral royalty or lease, any collateral-trust certificate, pre organization certificate or subscription, transferable share, investment contract, voting trust certificate, certificate of deposit for a security, any put, call, straddle, option, or privilege on any security, certificate of deposit, or group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or in general, any instrument commonly known as a “security”; or any certificate of interest or participation in, temporary or interim certificate for, receipt for, or warrant or right to subscribe to or purchase, any of the foregoing; but shall not include currency or any note, draft, bill of exchange, or banker’s acceptance which has a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof the maturity of which is likewise limited.” Section 3(a)(10) of the Securities Exchange Act of 1934.

The U.S Supreme Court has stated that the term “investment contract” in these two definitions is treated as being the same (SEC v. Edwards, 540 U.S. 398 (2004)). So, we can see that the U.S term “security” includes also an “investment contract”. An investment contract is an “investment of money in a common enterprise with a reasonable expectation of profits to be derived from the entrepreneurial or managerial efforts of others.”(see SEC v.Edwards, 540 U.S.389, 393 (2004); SEC v. W.J.Howey Co., 328 U.S. 293, 301 (1946); see also the Forman case, at 852-853) (in this work, the “Howey Test”). To be accurate, the Howey Test requires that the profits will be made solely from the efforts of others:

“... an investment contract for purposes of the Securities Act means 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.... Such a definition...permits the fulfillment of the statutory purpose of compelling full and fair disclosure relative to the issuance of the many types of instruments that in our commercial world fall within the ordinary concept of a security.... It 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.” (SEC v. W.J. Howey Co., 328 U.S. 293 (1946))

In order for us to have a deeper understanding of the issue under debate, we should take into consideration the US Supreme Court case SEC v. Howey, 328 U.S. 293 (1946), which provides further clarifications on determining whether an instrument meets the definition of security, or not. In this Supreme Court case, Howey focuses specifically on the term “investment contract” within the definition of “security”. Obviously, not every contract or agreement is an “investment contract”.

The Court determined that a contract constitutes an investment contract that meets the definition of “security” if there is:

1. an investment of money;
2. in a common enterprise;
3. with an expectation of profits;
4. solely from the (entrepreneurial or managerial) efforts of others (e.g., a promoter or third party);

The four factors must be met all together, in order to be legally considered “security”. Because this Supreme Court Decision is widely considered as fundamental to the determining elements of a “security”, we will base our analysis to its conditional factors.

Prong 1: Investment of Money

Is this an investment? Yes! It is generally accepted that an investment of money may include not only the provision of capital, assets and cash, but also of goods, services or of promissory notes. APFC is being distributed through a Token offering by the issuer APFC to purchasers with a price set per Token, so the first factor is actually met.

Prong 2: A Common Enterprise

Is this investment in a common enterprise? There are two sub-tests for the “Common Enterprise” prong – the horizontal commonality test, and the vertical commonality test, which is being divided into the narrow vertical and the broad vertical. The U.S Courts have applied these two tests alternatively. The horizontal commonality test, which is the more common test, requires the pooling of assets from multiple investors so that all will share in the profits and risks of the enterprise i.e. the profits of each investor are similar to those of the other investors.

Both vertical commonality tests require that the investor's fortunes will be tied to the issuer/promoter's success, rather than to the fortunes of its fellow investors; the broad vertical commonality test requires that the well-being of all investors

be dependent upon the issuer/promoter's expertise. On the other hand, the narrow vertical commonality test requires that the investors' fortunes be "interwoven with and dependent upon the efforts and success of those seeking the investment ... of third parties" (SEC v. SG Ltd., 265 F.3d 42, sec. 31-35 (1st Cir. 2001)).

Nevertheless, there is also the requirement for a mutual share in the profits and risks of the enterprise. Here, since the value of the token shall be based on user participation and mass adoption of the technology to which no single person is bearer to profits and losses of the same, though it might indicate towards common enterprise but it is not the case. By exchanging the APFC Token, the token owners can use the technology and various other platforms connected to the underlying platform. There is no advantage to buy the APFC Token except for the purpose of participating in the technology mass adoption and various other milestone targets.

If one so desire, and therefore there is no correlation between all token holders' "profits" – the use of the token is discretionary. Furthermore, the token can be sold at exchanges, so the user can at any time get out of the investment and the earnings from using them shall be based on each user's effort and doesn't have much to do with the common enterprise, it is an established crypto token that is expanding to become a blockchain platform for multiple purposes. Essentially, APFC Token is based on some of the best and most intuitive technologies of the crypto world, and by that, it seems that the horizontal commonality test's requirements are not met.

By applying the narrow vertical commonality test, we can clearly see that the investors' funds are not connected or dependent upon the success of the token issuer. The APFC Token technology which has been in place and will be improved along with various other facets of business the earning of the token holder shall be based on much that person interacts at the platform and value of the token shall be based on various factors like adoption of the technology to which the token holders also contribute in their own way. That means the token holders don't benefit solely from the efforts of others.

And finally, as far as the broad vertical commonality test is concerned, it would be wrong to say that the well-being of all investors is dependent upon the issuer/promoter's expertise, because the APFC Token tech and various other platforms is to use in an interactive manner and each token holder has an equal chance of making it successful. Therefore, the token holders' well-being is completely disconnected from the issuer's expertise, wherein the activation of the rights of the digital tokens will be an automated technicality, involving only the digital world. Therefore, we see these vertical commonality tests' requirements unmet.

Furthermore, a common enterprise is deemed to exist where investors pool funds into an investment and the profits of each Token buyer correlate with those of the other investors. Whether funds are pooled appears to be the key question, and thus in cases where there is no proportional sharing of profits or pooling of funds, a common enterprise may be deemed not to exist. APFC is unlikely to be deemed a "security" at this stage of development, and that is even taking into consideration the fact that the APFC Platform is fully operational. It is worth noting that in the in case the development model is maintained in the future, the utility status of the Token is likely to be maintained after the platform will further develop new associated services. There is no pooling of funds at this stage for the purpose of investment in the company. Therefore, at this stage of development, APFC is substantially a utility token consumed to transfer value across the blockchain with a relatively stable value across various exchanges.

To conclude, the APFC Token does not meet horizontal commonality test requirements, the token holders' pecuniary rights are not being accumulated, they are discretionary. Therefore, it only seems reasonable that this prong is not met.

Prong 3: Expectation of Profits

This prong does not merely require the customer who buys the token to expect profit, because it seems unreasonable that someone will purchase a service or a good without taking into account the probability that the purchased will increase in value. The expectation of profits from a purchase of any kind of valuable is almost always present. Therefore, it seems that the prong requires not only that there will be an expectation to profit, which is trivial, but also that the purchase of that valuable will be primarily motivated by making profits (upon resale for example), rather than by consuming or using that which was purchased. The personal consumption is a vital part of considering whether this prong is met or not, wherein it should be examined if the primary motivation of purchasing the token is to profit upon resale, or to use the underlying rights of the token. There are several court cases where this differentiation was stipulated, for example see the Forman Case. Per Forman, it "is an investment where one parts with his money in the hope of receiving profits from the efforts of others, and not where he purchases a commodity for personal consumption or living quarters for personal use".

So! Is there an expectation of profit? In our legal opinion, this factor is irrelevant to the matter, but we will analyze it in respect of the Supreme Court Decision. From an economic point of view, any type of investment is made with an expectation

of profit. But just because there is a return on investment or profit, does not mean that the investment contract is a "security". The people who bought the tokens over the exchanges will primarily be motivated by functionalities it provides and also when the milestones are met it can be put to different uses in various scenarios. So, the least possible probability would be that the person is purchasing the tokens for purpose of profit upon resale as noted above it is a utility token and no money was ever raised from general public it would be unjust to reach a conclusion that the token holders are holding it for profit upon resale. Nevertheless, since the token provides a real consideration and functionality, it only seems reasonable that purchasers will use the token's rights for consumption and participation at the platform. Moreover, the main purpose of Apfdigitalagrifund is creating a blockchain-based agricultural services platform. So, the expectation of profit is mainly oriented towards another category of economic activities, not on APFC Tokens, which renders somewhat irrelevant the profits from the eventual Token Generation Event. Even so, this factor is probably met, on a low scale, provided that APFC is purchased by investors with an expectation of capital gain, even though we clearly express the opinion that this factor should not weigh in decisively on the matter.

Prong 3A: Causal Connection Between the Investors' Expectation of Profits and the Actions of the Issuer

As this prong should be tested only after the offering of an instrument for actions done on the part of the issuer, to create expectation of profits in the potential buyers, i.e. promises or statements from the Company within or prior to the Token Sale, to spur expectation of profits in the Token Sale participants. It needs to be highlighted that the company although did liquidity raise under different forms of sales, the incidental increase in the price (if any) of the APFC Token is secondary and not the primary purpose of conducting of issuing the coin.

Prong 4: From the Efforts of Others

This prong is based on the fulfillment of the requirement of the previous prong – expectation of profits. Assuming that prong3 is met (whereas to our opinion APFC Token does not always meet its requirement for the above-mentioned arguments), this prong "from the efforts of others" is examining the source of the profits - "whether the efforts made by those other than the investor are the undeniably 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.2d 476, sec. 28 (Feb. 1, 1973)). Therefore, this prong cannot, on its own, qualify any instrument (or token) as a security.

Why "significant" and not "solely"? Initially, in the Howey case, the phrase is stated "solely from the effort of others". Nevertheless, the Forman case has construed the word "solely", in that context, as requiring significant or essential managerial efforts necessary to the success of the investment (instead of being the "sole effort" as this phrasing means literally). token users vs. Buyers for the Sake of Price Appreciation in the Secondary Market.

In reality, the general market for the APFC Token is composed of two major kinds of users. There is the purchaser which intends to use the token for its underlying rights for consumption, and there are those who will purchase the tokens for further secondary market appreciation. The latter will sell the tokens in the secondary market for a profit.

Prima facie, the purchasers who only purchase the token in the secondary market, are motivated by "expectation of profit". The purchasers for the sake of future selling in the secondary market might make profit per se, and courts in Forman held that "Profits" can also mean "capital appreciation resulting from the development of the initial investment" (the Forman Case).

Nevertheless, this profit will not be generated from "the effort of others". In reality, every valuable can be expected to appreciate due to secondary market factors which are not related to any continuing effort of the issuer. For example, there could be a purchase of a real estate, or gems that could appreciate later, and be sold in a profit. The purchase agreement of a real estate cannot be considered as an investment contract solely due to the fact that the real estate will almost certainly appreciate. Therefore, mere appreciation in the second market cannot be perceived as made by "the effort of others". To support this argument, it has been held by number of cases that mere secondary market appreciation cannot at all be construed or perceived as derived from "the effort of others", e.g.: "The mere presence of a speculative motive on the part of the purchaser or seller does not evidence the existence of an "investment contract" within the meaning of the securities acts. In a sense anyone who buys or sells a horse or an automobile hopes to realize a profitable "investment." But the expected return is not contingent upon the continuing efforts of another." *Sinva v. Merrill Lynch*, 253 F. Supp. 359, 367 (S.D.N.Y.1966) Therefore, the fact that a person might purchase the token solely in order to sell it in the secondary market for profit, does not constitute on its own the prong 4, the "effort of others".

So! Is there the "solely on the efforts of others" factor met? No! The profit of the platform user always depends on his own actions. As we said, even though there is also an investment in APFC Tokens, the expectation of profits results mainly from the economic activity, not from the volatility of the Tokens. There is no clear party to be determined, whose efforts will

influence the profits of the company. So, any such incentives should ideally be derived through their own efforts, rather than through a passive investment. In such a case, the factor is not met.

The Undeveloped Project, and the Pre-sale

There are two common definitions for a pre-sale. The first is receiving orders of future tokens prior to their issuance. The second definition is selling tokens in a discount, but in a limited quantity, and only in exchange for large orders. These are common acts amongst the blockchain community and it is meant to serve as an incentive to participate in the Token Sale. As for the differentiation between Token Sale and their Pre-sales, it goes without saying, that presales to Token Sales, like Token Sales themselves, should likewise undergo an examination per the Howey Test (or other securities laws in case of other jurisdictions).

The Pre-sale occurs, and often the Token Sale occurs, prior to the development of the project. Since the development of the project is being made by the issuer, this act might be considered as “essential managerial efforts of others”. If this is the case, then the token might be deemed a security.

There are two approaches to address the pre-sale issue, two schools to treat the undeveloped project’s token sale, as far as prong 4: “the effort of others” is concerned. The first approach can be considered, to our opinion, as a “technical approach”. This school argues that if the project is undeveloped, then the tokens’ value is almost utterly dependent on the managerial efforts of the issuer. Therefore, in case a token is sold when the project is undeveloped, then the tokens meet the requirement of prong 4 and along with the analysis of the previous prongs as well, the tokens might be deemed as a security. Here in the case of APFC Platform tech was already developed and some features of the platform are in progress, all the details regarding the milestones were discussed in the whitepaper and the some of the coins were pre-mined and users were allowed to mine the coins using a specific technical functionality developed and ready to run.

This school has conceived the “SAFT”. The acronym stands for “Simple Agreement for Future Tokens”. This is a legal document which is based on the SAFE, a “Simple Agreement for Future Equity”. The SAFT is an instrument which is meant to serve as a way to bypass the technical issue of undeveloped project being dependent upon the essential managerial efforts of others.

The SAFT is an investment contract, to receive tokens in a future date. The SAFT itself is meant to serve as “investment agreement” in the U.S securities laws federal meaning as previously discussed. Therefore, the SAFT should be sold only under the exemption from registration of rule 506 (C) of Regulation D of the Securities Act, which limits the offer of the SAFT only to 35 people, and to unlimited “Accredited Investors”, one definition of whom is “Any natural person whose individual net worth, or joint net worth with that person’s spouse, exceeds \$1,000,000” (Rule 501(a)(5)). The SAFT project has conducted a thorough analysis, is very interesting and instructive, and on top it may offer some theoretical tax benefits, which we shall not cover in this work.

Nevertheless, so far as the U.S securities laws are concerned, per this technical approach, we see no material difference between selling the SAFT, and selling actual tokens – so long as the project is still undeveloped. In both cases, per the technical approach, the securities laws are to apply, and therefore only 35 people and unlimited “accredited investors” may enjoy from the benefits of the Token Sale or its pre-sale, whether by Token Sale or without it. Not applicable in this case due to the above said development phase already achieved.

The second approach look past the technicalities of whether the project is fully developed or there is still work to be done, utilizing the funds raised or regardless. We may name this approach “the material approach” as it prefers substance over form. Per this approach, a token shall be a security, or non-security, regardless of the fact that the project is not fully developed yet i.e. the token sale does not change its legal nature or character completely due to the mere fact that the project is completed or nearly complete.

From the two approaches, we favor the second “material approach”. We believe that the thought that a token sale is a security merely because the underlying project is not fully deployed or completed, is a legal error as far as cooperative Token Sales are concerned. Though by reviewing common policies and considerations regarding investors protection we can clearly understand that a purchaser’s risk in buying a token of an undeveloped project is larger than if the project was developed, it is nevertheless limited still, and understood due to the cooperative nature of many of the Token Sale projects.

The Forman Case turned on a cooperative housing project. The court stated that “people who intend to acquire only a residential apartment in a state-subsidized cooperative, for their personal use, are not likely to believe that, in reality they are purchasing investment securities simply because the transaction is evidenced by something called a share of stock..the

inducement to purchase was solely to acquire subsidized low-cost living space; it was not to invest for profit...when a purchaser is motivated by a desire to use or consume the item purchased ... the securities laws do not apply". So, we can clearly see that the Forman Case explains that cooperative initiatives, where a purchaser is likely to purchase a share in the project itself (not in the legal entity), will generally not be treated as securities offerings.

As most Token Sales hold an underlying cooperative ideal, in case such exists, it must be taken into account in considering whether the "essential effort of others" prong is met or not. Therefore, as far as cooperative Token Sales are concerned, we must state our opinion that a token should not be viewed as if it has changed its nature or legal status merely because it is sold prior to the system's launch, the project's completion or the code's development.

Moreover, and to support the view of the second "material approach", we wish to indicate that the first "technical approach" disregards the development stage of the project and classifies its token sale as a potential security. It is possible that the very last steps are missing and the Token Sale is being conducted and completed concurrent or just prior to the completion of the development of the project. Still, this "technical approach" shall deem such a project as utterly dependent on the essential managerial efforts of others, and as such – a security.

Nevertheless, we wish to note that we have not found any conclusive law or case law on the subject to prefer either view on the subject matter. Hence, we do not further inquire on this subject further.

In the case at hand, the development of the underlying project is under process though some of the functionalities are fully developed and some of them are with longer incubation period and will be developed over a period of coming months.

Therefore, as per our view, in case of the APFC Token, considering the fact that the system is already developed by the time of the offering, and considering its participative characteristics and some of the functionalities will be developed in future, this prong cannot be termed as fully met.

Interim conclusion – the Howey Test

By concluding all the variants on the APFC Token, we can safely assume that the APFC Token will not be deemed as a security per the Howey Test. It takes all four prongs to be fulfilled in order to see an instrument as a security. The "investment of money" is not met, the "common enterprise" with the horizontal commonality test might not be, since the rewards for holding the token are based on participation at the APFC Token Network and users/token holders will be rewarded on the basis of their participation and the tokens serve a purpose for using the platform in various ways and not just by holding the tokens. Furthermore, the interested users of the APFC Token can buy the tokens only from the secondary markets as they are listed at exchange and can use them at the platform. According to our analysis, also the two vertical commonality tests are not met.

Furthermore, the "expectations of profit" prong will not be fulfilled as far as the personal consumers are concerned but will definitely be fulfilled for the purchasers with the intent to sell the tokens in the secondary market for profits.

And eventually, for the "effort of others" component, the schools are divided between the technical approach and the material approach, wherein per the technical approach the "efforts of others" component is not met because the APFC Token network has already started and the profits of the investors are dependent upon the efforts of the participants, whilst the material approach, which we support, claims that that the "efforts of others" component is not fulfilled because an instrument does not utterly change its legal status just because the underlying project has not been completed yet. So, the overall risk score is quite minimal and we are positive that APFC Token shall not be considered as 'Security'.

Therefore, per our legal view, APFC Token should not be deemed as a security per the U.S federal securities laws.

European Union and UK

From an EU and UK legal standpoint, when we conducted a detailed decomposition and analysis of all online APFC Token business processes, we were unable to detect and identify any process that can be regarded as a relationship between an investor and an Issuer of securities. On the other hand, if we aim to register the issue of securities, we will not be able to prove to the regulator body that Tokens are securities. Moreover, the main Token holders are interested in participating in the trading of transactions, and this is peer-to-peer mainly.

By our opinion, the expertise of APFC Token under the EU securities legislation cannot be applied to APFC Token due to the fact that all business processes and relationships within the platform are classic relationships for service providers and service consumers, all within a blockchain-based platform. There is no contribution to any business venture.

Nowadays, the matters of cryptocurrency turnover and production of digital assets has not special legal regulation. There are neither special laws, nor separate legal Institute or branch of law. Therefore, we cannot qualify a Token as a unique legal essence.

Token taxonomy according to ESMA and EBA

Although not legally binding at a supranational level, it is advisable to refer to the regulatory framework structured on the Advice on Initial Token Offerings and Crypto-Assets of ESMA⁴ and the Report with advice for the European Commission on crypto-assets of EBA⁵; both published on 9th January 2019.

Presently, there is no common taxonomy of crypto-assets in use by international standard-setting bodies. However, even if crypto-assets may have different features or serve different functions, a basic taxonomy of crypto-assets generally comprises three main categories of crypto-assets:

Payment/Exchange/Currency Tokens: Payment Tokens are Tokens which have no tangible value, except for the expectation they may serve as a means of exchange or payment to pay for goods or in the services that are external to the ecosystem in which they are built. "Stablecoins" are a relatively new form of payment/exchange Token that is typically asset-backed (by physical collateral or crypto-assets) or in the form of an algorithmic "stablecoin".

Utility Tokens: Utility Tokens are Tokens which are intended to typically enable access to a specific product or service, often provided using a DLT platform but are not accepted as a means of payment for other products or services.

Investment Tokens: Investment Tokens may represent financial assets, such as a debt or equity claim on the Issuer. Investment Tokens promise, for example, a share in future company earnings or future capital flows. In terms of their economic function, therefore, these Tokens are analogous to financial instruments. However, investment Tokens may also exclusively reflect the ownership rights of an asset, which may not be deemed as a financial instrument. There is a wide variety of crypto-assets, some of which have features spanning more than one of the categories identified above. The individual Token classifications are not mutually exclusive.

We will further analyze the legal qualification of crypto-assets under the European Banking legislation and ESMA's remit (MiFID II), and under the E-Money Act in line with the second Electronic Money Directive (EMD2) and the second Payment Services Directive (PS2). Reflecting on the above, the current perimeter of regulation is such that crypto-assets may, depending on their characteristics, qualify as financial instruments, electronic money, or none of the foregoing.

The definition of a financial instrument is the key element towards determining whether trading services with respect to a Token can be deemed to be regulated in terms of the Banking Act and other relevant laws. Financial instruments are defined by the Article 4(1)(15) of MIFID II as those instruments specified in Section C of Annex I of MIFID II; those are:

- I. Transferable securities;
- II. Money-market instruments;
- III. Units in collective investment undertakings;
- IV. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
- V. Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event;
- VI. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market, a MTF, or an OTF, except for wholesale energy products traded on an OTF that must be physically settled;
- VII. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 of this Section and not being for commercial purposes, which have the characteristics of other derivative financial instruments;
- VIII. Derivative instruments for the transfer of credit risk;
- IX. Financial contracts for differences;
- X. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in

this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF, or an MTF;

- XI. Emission allowances consisting of any units recognized for compliance with the requirements of Emission Directive. It is necessary to individually assess each of these instruments and determine whether APFC Token can be considered one of these.

For the purpose of this analysis, instruments listed here can be grouped together as the derivative financial instruments.

Transferable securities

Transferable securities are defined in Article 4(1)(44) as those classes of securities which are negotiable on the capital market, with the exception of instruments of payment, such as:

- a) shares in companies and other securities equivalent to shares in companies, partnerships or other entities, and depositary receipts in respect of shares;
- b) bonds or other forms of securitized debt, including depositary receipts in respect of such securities;
- c) any other securities giving the right to acquire or sell any such transferable securities or giving rise to a cash settlement determined by reference to transferable securities, currencies, interest rates or yields, commodities or other indices or measures.

Although no formal test for defining an instrument as a transferable security has been devised by the European regulator, the key characteristics of a transferable security can be derived. Such characteristics would consist of three formal criteria and a substantive one. The formal criteria would be transferability (meaning that the units shall be able to be assigned to another person), negotiability (meaning that the units can be transferred with ease), and standardization (meaning that the units are sufficiently standardized for the purposes of the ease of search and purchase). In case of APFC Token (as with practically any other kind of token) all these criteria are fulfilled: tokens can be transferred between addresses and it can be done sufficiently easily, and all APFC Tokens are the same - which is a considerable argument for their standardization. The fourth criterion is a substantive one. MIFID II provides a non-exhaustive list of instruments that are typically considered securities; it is likely that this list shall be used as a reference in determining whether a new product can be considered a transferrable security. Therefore, to be considered a security, APFC Token must be at least comparable to the examples provided in MIFID II. The examples provided are the shares and their equivalent, bonds or other forms of securitized debt, and the derivative instruments that give the right to acquire such securities or giving rise to the cash settlement. APFC Tokens are in themselves neither shares nor bonds; their holders are not entitled neither to the fixed income like the bonds do, nor do the APFC Tokens grant their holders the equity stake in any corporation or any other rights, typically associated with shares or their equivalent, such as the right to receive a share in the revenue of the respective business or the right to vote or otherwise define the course of business of the issuer. APFC Token holders do not have the right to acquire any such securities, and neither does cash settlement arise from holding APFC Token, since no obligation of payment exists in regard to the APFC Token holders.

It is unlikely for APFC Token to be considered transferable securities under MIFID II.

Money-market instruments

Money-market instruments are defined in Article 4(1)(17) as classes of instruments which are normally dealt in on the money market, such as treasury bills, certificates of deposit and commercial papers and excluding instruments of payment. Since APFC Token bears no similarities to these instruments and is not intended to be dealt on the money market, it is unlikely a money-market instrument.

Units in UCITS

Units in collective investment undertakings are defined by the UCITS Directive, Article 1 of which defines UCITS as an undertaking with the sole object of collective investment in transferable securities or in other liquid financial assets referred to in Article 50(1) of the same Directive of capital raised from the public and which operate on the principle of risk-spreading; and with units which are, at the request of holders, repurchased or redeemed, directly or indirectly, out of those undertakings' assets. Action taken by a UCITS to ensure that the stock exchange value of its units does not significantly vary from their net asset value shall be regarded as equivalent to such repurchase or redemption. The Company is not planning to invest the proceeds from the sale of APFC Token in transferable securities or other financial instruments mentioned in the Article 50(1) of the UCITS Directive, such as financial derivative instruments, units in UCITS or money-market instrument. The APFC Tokens themselves are not redeemable, and the Company has no intention of repurchasing them; and while it is unlikely that Trading Venue would constitute a stock exchange for the purpose of the Article 1 of the UCITS Directive, the Company does not intend to take action to influence the market price of APFC Token sold to the token

holders. It is therefore unlikely that the Company may be considered a UCITS under the UCITS Directive, and the APFC Tokens are most likely NOT the units in UCITS.

Derivative instruments

A derivative is a type of financial instrument whose value is based on the change in value of an underlying asset or a basket of assets, of which the exact mechanics (option, future, swap, etc.) and the underlying assets (securities, currencies, commodities, credit risk, etc.) vary. Article 4(1) of CIR mandates the EMIR report to specify a derivative on the basis of the contract type and the asset class; according to Article 4(2) of CIR the derivative shall be specified in Field 1 of Table 2 of the Annex as one of the contract types:

- a) financial contract for difference;
- b) forward rate agreement;
- c) forward;
- d) future;
- e) option;
- f) spreadbet;
- g) swap;
- h) swaption;

These types of derivative contracts are defined in the Article 1(8) - (12) of Annex III to RTS 2: Future means a contract to buy or sell a commodity or financial instrument in a designated future date at a price agreed upon at the initiation of the contract by the buyer and seller. Every futures contract has standard terms that dictate the minimum quantity and quality that can be bought or sold, the smallest amount by which the price may change, delivery procedures, maturity date and other characteristics related to the contract. Option means a contract that gives the owner the right, but not the obligation, to buy (call) or sell (put) a specific financial instrument or commodity at a predetermined price, strike or exercise price, at or up to a certain future date or exercise date Swap means a contract in which two parties agree to exchange cash flows in one financial those of another financial instrument at a certain future date. Forward or forward agreement means a private agreement between two parties to buy or sell a commodity or financial instrument at a designated future date at a price agreed upon at the initiation of the contract by the buyer and seller.

Another type of derivative instrument is a financial contract for difference, which is specified in ACP as a derivative product that gives the holder an economic pressure, which can be long or short, to the difference between the price of an underlying asset at the start of the contract and the price when the contract is closed. Neither APFC Token holder nor the Company or any third party are subject to obligations similar to specified for the typical derivative contracts, and APFC Token holders are not entitled to demand any commodity or financial instrument to be sold to them; neither are they entitled to demand an exchange of cash flows in any financial instruments or a cash settlement from any third party. The value of APFC Token is not based on or relate to securities, commodities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures, or any other assets, rights, obligations, indices and measures and is only determined based on the current market demand for it, and APFC Token is not used to transfer credit risk. Therefore, APFC Token are unlikely to be considered derivative financial instrument as specified in Section (C) (4) - (10) of MIFID II.

Emission allowances

According to the Article 3(a) of the Emissions Directive, allowance means an allowance to emit one ton of carbon dioxide equivalent during a specified period, which shall be valid only for the purposes of meeting the requirements of this Directive and shall be transferable in accordance with the provisions of this Directive. Since none of the activities carried out by the Company are connected to the emissions of the carbon dioxide, and APFC Token holders do not grant the rights to emit carbon dioxide or its equivalents, APFC Token is unlikely to be qualified as an emission allowance.

Prospectus Requirements

The PD requires publication of a prospectus before transferable securities are offered to the public or traded on a regulated market. Since APFC Tokens are unlikely to be considered transferable securities, requirements of the PD do not apply to the issuance and listing of APFC Token.

Alternative Investment Funds

The AIFMD lays down the rules for the authorization, ongoing operation and transparency of the managers of alternative investment funds (AIFMs) which manage and/or market alternative investment funds (AIFs) in the Union. Therefore, it is necessary to assess whether the Company may be considered an AIFM. The Article 2(1)(c) defines the scope of AIMFD regulations as applicable to non-EU AIFMs which market one or more AIFs in the Union irrespective of whether such AIFs are EU AIFs or non-EU AIFs. According to Article 4(1) of the AIMFD, AIF means a collective investment undertaking,

including investment compartments thereof, which raises capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of those investors, and does not require authorization pursuant to Article 5 of UCITS Directive. AIFM means legal persons whose regular business is managing one or more AIF. Since the Company is not raising capital by selling APFC Token with a view to invest it for the benefit of APFC Token holders, it cannot be considered neither AIF, nor AIFM. Therefore, the regulations of the AIFMD do not apply to the issuance and listing of APFC Token.

Electronic money

Another question that must be answered is whether the special regime for electronic money as covered by the EMD can be applied to APFC Tokens. According to the Article 2(2) of the EMD, 'electronic money' means electronically, including magnetically, stored monetary value as represented by a claim on the issuer which is issued on receipt of funds for the purpose of making payment transactions as defined in point 5 of Article 4 of Directive 2007/64/EC, and which is accepted by a natural or legal person other than the electronic money issuer. It seems that APFC Token do not fit the definition of electronic money. While EMD states that e-money shall be issued on receipt of funds, the amount of APFC Token to be generated is constant and does not rely upon the number of possible purchasers; while it is entirely possible to acquire APFC Token via the transfer of the funds to the Company, APFC Token can be obtained in other ways, and can be used by the Company itself. Furthermore, APFC Tokens are not represented by a claim on the Company, since they are non-redeemable, and the Company is not obliged to make any payments in respect to the holders of APFC Tokens. Furthermore, as provided by the Article 1(4) of the EMD, even if the instrument can be considered electronic money, the EMD provisions do not apply if the instrument is exempt under the Article 3(k) of the PSD I. While the PSD I is repealed with the entrance of PSD II in force, according to the Article 114 of PSD II any reference to PSD I shall be construed as a reference to PSD II read in accordance with the correlation table in Annex II to PSD II. According to the Annex II, Article 3 of the PSD I correlate to the Article (3) of the PSD II. As demonstrated in the next section, if the activities of the Company could be considered payment services under PSD II, it is likely that they will be exempted under provisions of the Article 3(k) of the PSD II; such exemption would correlate with the exemption under Article 3(k) of PSD I and as such qualify to exempt the Company from the provisions of the EMD.

Payment Services

Another potentially applicable regulations are those imposed by the PSD II in regard to the payment services. Since transfer of APFC Token can be used as a consideration under the agreements entered into via the Platform, it is necessary to assess whether such transfer could be considered a payment transaction, and whether the Company is rendering payment services as defined by the PSD II. As stated in Article 4(3) of the PSD II, the payment service means any business activity set out in Annex I of the Directive. Those are:

1. Services enabling cash to be placed on a payment account as well as all the operations required for operating a payment account.
2. Services enabling cash withdrawals from a payment account as well as all the operations required for operating a payment account.
3. Execution of payment transactions, including transfers of funds on a payment account with the user's payment service provider or with another payment service provider:
 - a. execution of direct debits, including one-off direct debits;
 - b. execution of payment transactions through a payment card or a similar device;
 - c. execution of credit transfers, including standing orders.
4. Execution of payment transactions where the funds are covered by a credit line for a payment service user:
 - a. execution of direct debits, including one-off direct debits;
 - b. execution of payment transactions through a payment card or a similar device;
 - c. execution of credit transfers, including standing orders.
5. Issuing of payment instruments and/or acquiring of payment transactions.
6. Money remittance.
7. Payment initiation services.
8. Account information services.

It is therefore necessary to assess whether the activities of the Company can be considered as each of the following. It is possible to group together the services mentioned in the Annex I (1) and Annex I (2) as operations with the payment accounts, as well as to group services mentioned in the Annex I (3) and Annex I (4) as operations regarding payment transactions. 5.6.11. Operations with payment accounts Payment account is defined in Article 4(12) of PSD II as an account held in the name of one or more payment service users which is used for the execution of payment transactions. Payment transaction in accordance to Article 4(5) means an act initiated by the payer or on his behalf or by the payee, of placing, transferring or withdrawing funds, irrespective of any underlying obligations between the payer and the payee. Funds are defined in Article 4(25) and mean banknotes and coins, scriptural money or electronic money as defined in Article 2(2) of

EMD. As demonstrated in the previous section, APFC Tokens do not qualify as electronic money under the regulations of EMD; nor can they be considered banknotes, coins or scriptural money. This means APFC Tokens are not funds under the PSD II, and therefore transactions of APFC Tokens with them would not constitute a payment transaction under PSD II. Since operations with the private wallets of the clients do not constitute operations with payment accounts, and Annex I (1-2) services are not applicable.

Payment Transactions

Since operations with APFC Token do not constitute payment transactions, Annex I (3-4) are not applicable to the services rendered by the Company. 5.6.13. Issuing and/or acquiring of payment instruments According to the definitions in Article 4(13-14), payment instrument means a personalized device(s) and/or set of procedures agreed between the payment service user and the payment service provider, used in order to initiate a payment order, which is an instruction by a payer or payee to its payment service provider requesting the execution of a payment transaction. While operations with APFC Tokens do not constitute payment transactions, the Company cannot be considered issuing payment instruments; neither it can be considered acquiring payment transactions.

Money remittance

Money remittance is specified in Article 4(22) as a payment service where funds are received from a payer, without any payment accounts being created in the name of the payer or the payee, for the sole purpose of transferring a corresponding amount to a payee or to another payment service provider acting on behalf of the payee, and/or where such funds are received on behalf of and made available to the payee. The Company does not render such services; it is only possible to purchase APFC Tokens in one's own name, and the proceeds received are not transferred to another person.

Payment initiation services

According to Article 4(15), payment initiation service means a service to initiate a payment order at the request of the payment service user with respect to a payment account held at another payment service provider. The Company does not render such services and does not have access to user's payment accounts at payment service providers.

Account information services

Account information service is specified in Article 4(16) as an online service to provide consolidated information on one or more payment accounts held by the payment service user with either another payment service provider or with more than one payment service provider. The Company does not provide such services.

Exemptions for a limited-use instrument

It is argued that the activities of the Company in regard to the issuance and listing of APFC Token do not constitute payment services at all, and APFC Token cannot be considered payment instruments as defined by the PSD II. But even if APFC Token could be considered a payment instrument under the PSD II, the regulations will still be inapplicable due to the exemption provided by the Article 3(k) of the Directive. According to this exemption, PSD II does not apply to services based on specific payment instruments that can be used only in a limited way, that meet one of the following conditions: (i) instruments allowing the holder to acquire goods or services only in the premises of the issuer or within a limited network of service providers under direct commercial agreement with a professional issuer; (ii) instruments which can be used only to acquire a very limited range of goods or services; It seems that the exemption may be applied to the APFC Token, since they are intended to be used under a limited set of agreements, only between the users of the Platform and for a limited purpose. Thus, it can be argued that if APFC Token could be considered payment instruments, they would likely be also considered only suitable for acquiring a very limited range of services within a limited network of service providers under direct commercial agreement with the Company.

To round up a conclusion, we can safely iterate the following:

- The market price of the Token does not influence on the company's profit, and the company profit does not influence on the Token market price.
- There are no declarations in Whitepaper promising "Expectation of Profits" to Token buyers. Token holders can receive any income from the Token by their own efforts, or they can also lose the Tokens while trading.
- APFC Token is clearly not greenhouse emission allowances.
- APFC Token does not constitute any sort of debt obligation. For essentially the same reason, a APFC Token is not a bond or other tradable debt obligation.
- APFC Token does not constitute a share because it neither entitles its holder to a dividend nor grants its holder any right to participate in the governance of APFC or of any other company.
- APFC Token is not a subscription right or other tradable right granting the right to acquire securities. A APFC Token simply does not give its holder any option to acquire a bond or a share.

- The Company does not propose to use the monies received from the sale of APFC Tokens for following any defined investment policy for the benefit of the buyers of APFC Token in question and in their common interests: the buyers of APFC Token will not have distributed to them any income earned as a result of operating the platform.

Furthermore, a derivative security comprises a tradable security expressing a right or an obligation to acquire, ex-change or transfer, provided that its value depends, directly or indirectly, on:

1. the exchange or market price of a security;
2. on any interest rate;
3. securities index, other financial index or financial indicator, including the inflation rate, freight rate, emission allowances or other official economic statistics;
4. currency exchange rates;
5. credit risk and other risks, including climatic variables;
6. the exchange or market price of a commodity.

The APFC Token does not represent any of such cases.

While the value of a APFC Token would likely depend on the success of the ecosystem, the content available via that ecosystem does not constitute a commodity. Thus, a APFC Token is neither a derivative security nor a derivative contract.

Electronic money is commonly defined as a digital alternative to cash allowing users to make cashless payment with money stored over the internet with the final aim to facilitate the emergence of intuitive electronic money services and encourages effective competition between all market participants.

A Token is to be classified as electronic money if the following conditions are met altogether:

- Is electronically stored;
- Has monetary value;
- Represents a claim on the Issuer;
- Is issued on receipt of funds;
- Is issued for the purpose of making payment transactions;
- Is accepted by persons other than the Issuer.

In our legal view, the APFC Token shall serve as an integral feature of the core processes of the platform, as denoted in the Whitepaper. However, nothing in the Whitepaper provided by the Protocol indicated that APFC Token holders can have a claim against the issuer's assets arising from funds which were initially placed against such issuance of APFC and that such holders can redeem their funds at par value. Therefore, APFC Token falls outside of the scope of the definition of Electronic Money.

Finally, APFC are likewise not depository receipts. A depository receipt is a security that represents owner-ship of the securities of a foreign issuer and which can be admitted to trading on a regulated market independently of the securities of the foreign issuer. To constitute a depository, receipt a APFC Token would need to represent an ownership of a security. All the functions of a APFC Token are listed above. An instrument fulfilling only those functions does not constitute a security.

European Union findings.

It has been demonstrated that the APFC Token is unlikely to be considered a financial instrument under the European Regulations, and so, it is exempt from the regulations of MiFID II, PD, AIFMD and UCITS Directive. Furthermore, it is unlikely that regulations on electronic money or payment services imposed by EMD and PSD II could be applied to the business activities of the Company in regard to the issuance or listing of the APFC Tokens.

Republic of Singapore

This section sets forth our Firm's legal opinion as to whether the APFC tokens would likely constitute an ownership interest in APFC `s assets or property, for purposes of the Securities and Futures Act. A few elements have to be outlined:

The meaning of "capital markets products" and "securities"

The SFA sets out at section 2(1) a definition "capital markets products" as follows: " *capital markets products*" means any securities, units in a collective investment scheme, derivatives contracts, spot foreign exchange contracts for the purposes of leveraged foreign exchange trading, and such other products as the [MAS] may prescribe as capital markets products;"

Section 2(1) further defines "securities" as follows: " "securities" means:

- a) shares, units in a business trust or any instrument conferring or representing a legal or beneficial ownership interest in a corporation, partnership or limited liability partnership;
- b) debentures; or
- c) any other product or class of products as may be prescribed, but does not include:
 - (i) any unit of a collective investment scheme;
 - (ii) any bill of exchange;
 - (iii) any certificate of deposit issued by a bank or finance company, whether situated in Singapore or elsewhere; or
 - (iv) such other product or class of products as may be prescribed."

The definitions of the terms "shares", "debenture", "derivatives contract" and "collective investment scheme", which are referred to in the definitions of "securities", are relevant for the purpose of this analysis. The other categories of instruments / relationships which would be categorized as securities (and hence capital markets products), such as spot foreign exchange contracts, units in a business trust, or interests in partnerships, are not relevant for the purpose of this analysis and APFC would not constitute any of these.

Section 2(1) of the SFA provides that the term "debenture" includes:

- a) any debenture stock, bond, note and any other debt securities issued by or proposed to
- b) be issued by a corporation or any other entity, whether constituting a charge or not, on the assets of the issuer;
- c) any debenture stock, bond, note and any other debt securities issued by or proposed to be issued by a trustee-manager of a business trust in its capacity as trustee-manager of the business trust, or a trustee of a real estate investment trust in its capacity as trustee of the real estate investment trust, whether constituting a charge or not, on the assets of the business trust or real estate investment trust; or
- d) such other product or class of products as the Authority may prescribe,

but does not include:

- i. a cheque, letter of credit, order for the payment of money or bill of exchange; or
- ii. for the purposes of the application of this definition to a provision of [the SFA] in respect of which any regulations made thereunder provide that the word "debenture" does not include a prescribed document or a document included in a prescribed class of documents, that document or a document included in that class of documents, as the case may be;"

In addition, it should also be noted that under section 239(3) of the SFA, it is stated that:

"For the purposes of this Division [i.e. Division 1 of Part XIII]:

- a) any invitation to a person to deposit money with or to lend money to an entity shall be deemed to be an offer of debentures of the entity; and
- b) any document that is issued or intended or required to be issued by an entity acknowledging or evidencing or constituting an acknowledgment of the indebtedness of the entity in respect of any money that is or may be deposited with or lent to the entity in response to such an invitation shall be deemed to be a debenture."

Debentures have also been judicially defined to mean a document which either creates a debt or acknowledges it and may include any obligation, covenant, undertaking or guarantee to pay, or any acknowledgement thereof. It is key to note, however, that not all company debts qualify as debentures.

At present, the term "collective investment scheme" under the SFA means:

- A. an arrangement in respect of any property:
 - a) under which the participants do not have day-to-day control over the management of the property, whether or not the participants have the right to be consulted or to give directions in respect of such management;
 - b) under which either or both of the following characteristics are present:
 - i. the property is managed as a whole by or on behalf of a manager;
 - ii. the contributions of the participants, and the profits or income out of which payments are to be made to the participants, are pooled; and
 - c) under which either or both of the following characteristics are present:
 - i. the effect of the arrangement is to enable the participants (whether by acquiring any right, interest, title or benefit in the property or any part of the property or otherwise): (A) to participate in or receive profits, income, or other payments or returns arising from the acquisition, holding, management, disposal, exercise,

- redemption or expiry of, any right, interest, title or benefit in the property or any part of the property; or (B) to receive sums paid out of such profits, income, or other payments or returns;
- ii. the purpose, purported purpose or purported effect of the arrangement is to enable the participants (whether by acquiring any right, interest, title or benefit in the property or any part of the property or otherwise): (A) to participate in or receive profits, income, or other payments or returns arising from the acquisition, holding, management, disposal, exercise, redemption or expiry of, any right, interest, title or benefit in the property or any part of the property; or (B) to receive sums paid out of such profits, income, or other payments or returns, whether or not: (AA) the arrangement provides for the participants to receive any benefit other than those set out in sub-paragraph 12.1(c)(ii)(A) or 12.1(c)(ii)(B) in the event that the purpose, purported purpose or purported effect is not realized; or (BB) the purpose, purported purpose or purported effect is realized; or
- B. an arrangement which is an arrangement, or is of a class or description of arrangements, specified by the Authority as a collective investment scheme by notice published in the Gazette.

The following are not considered collective investment schemes under the SFA (each an Excluded Arrangement):

- an arrangement operated by a person otherwise than by way of business;
- an arrangement under which each of the participants carries on a business other than investment business and enters into the arrangement solely incidental to that other business;
- an arrangement under which each of the participants is a related corporation of the manager;
- an arrangement made by or on behalf of an entity solely for the benefit of persons, each of whom is:
 - (a) a bona fide director or equivalent person, a former director or equivalent person, a consultant, an adviser, an employee or a former employee of that entity or, where that entity is a corporation, a related corporation of that entity; or
 - (b) a spouse, widow or widower, or a child, adopted child or step-child below the age of 18 years, of such director or equivalent person, former director or equivalent person, employee or former employee;
- an arrangement made by or on behalf of 2 or more entities solely for the benefit of persons, each of whom is:
 - (a) a bona fide director or equivalent person, a former director or equivalent person, a consultant, an adviser, an employee or a former employee of any of those entities or, where any of those entities is a corporation, a related corporation of the entity which is a corporation; or
 - (b) a spouse, widow or widower, or a child, adopted child or step-child below the age of 18 years, of such director or equivalent person, former director or equivalent person, employee or former employee;
- a franchise;
- an arrangement under which money received by an advocate and solicitor from his client, whether as a stakeholder or otherwise, acting in his professional capacity in the ordinary course of his practice, or under which money is received by a statutory body as a stakeholder in the carrying out of its statutory functions;
- an arrangement made by any co-operative society registered under the Co-operative Societies Act 1979 in accordance with the objects thereof solely for the benefit of its members;
- an arrangement made for the purposes of any chit fund permitted to operate under the Chit Funds Act 1971;
- an arrangement arising out of a life policy within the meaning of the Insurance Act 1966;
- a closed-end fund (see below) constituted either as an entity or a trust;
- an arrangement under which the whole amount of each participant's contribution is a deposit as defined in section 4B of the Banking Act 1970;
- an arrangement of which —
 - (a) the predominant purpose is to enable the participants to share in the use or enjoyment of the property or to make its use or enjoyment available gratuitously to others; and
 - (b) the property does not consist of any of the following:
 - (i) any currency of any country or territory;
 - (ii) any capital markets products;
 - (iii) any policy as defined in the First Schedule to the Insurance Act 1966;
 - (iv) any deposit as defined in section 4B of the Banking Act 1970;
 - (v) any credit facilities as defined in section 2(1) of the Banking Act 1970;

In this regard, it is expressly stated that APFC does not represent any shareholding, participation, right, title, or interest in the Company or any other company, enterprise or undertaking. Once issued, it does not appear that holders of APFC incur any liability to the Company (or any other company, enterprise or undertaking), nor do they enter into mutual covenants, or agree to rights and obligations, with other APFC holders inter se. Consequently, it is unlikely that there would be any dealing in "securities" in the form of stocks or shares arising solely out of the design of APFC in itself.

As to whether APFC may be considered to be a debenture, APFC does not appear to be a "debenture" under the SFA for the following reasons:

- in order for an instrument to be deemed a debenture some element of indebtedness is required, but this is not present in the material provided for review;
- WP is non-refundable and APFC cannot be exchanged for cash (or its equivalent value in any other digital asset) or any payment obligation by the Company or any affiliate;
- APFC is not a loan to the Company or any of its affiliates and there is no expectation of profit;
- APFC is not intended to represent a debt owed by the Company or any of its affiliates (and in this regard there does not appear to be any payment obligation on the part of the issuer, payment of coupon and/or invitation to deposit money with or to lend money to the Company or any of its affiliates);
- APFC may have no value and there is no guarantee or representation of value or liquidity for APFC; and
- APFC may only be utilized on the Apfdigitalagrifund Platform as a medium of exchange for valuable services provided in the ecosystem on the Apfdigitalagrifund Platform, and provide economic incentives which will encourage users to contribute to and participate in the ecosystem on the Apfdigitalagrifund Platform (e.g. APFC will be paid to settle trades of APFC NFTs on the native marketplace, and distributed as incentives for active users which engage with the platform).

For completeness, we would mention that APFC does not appear to constitute a buy-back arrangement (which inherently carries a higher risk of inviting regulation under Singapore securities laws for the reasons described above) as APFC is non-refundable.

From the token documentation provided to us for review, APFC does not appear to reference any underlying asset or any underlying thing (but rather it is a useable digital token with certain prescribed functions); accordingly, it is also unlikely that APFC will be construed as a "derivatives contract".

Following the SEC's DAO Report, Singapore's financial regulatory body and central bank, the Monetary Authority of Singapore ("MAS"), clarified its own position and treatment of token offerings. The statement indicated that the offer or issue of digital tokens in Singapore will be regulated by MAS if the digital tokens constitute products regulated under the Securities and Futures Act (Cap. 289) ("SFA").

Specifically, where digital tokens fall within the definition of securities in the SFA, issuers of such tokens are required to issue and register a prospectus with MAS before the offering of such tokens, unless otherwise exempted.

Digital tokens may be securities subject to the SFA where they represent ownership or a security interest over an issuer's assets or property and may therefore be considered an offer of shares or units in a collective investment scheme.

However, the MAS guidance leaves open the possibility that not all token sales are subject to the SFA and that some token sales may be distinguishable from equity or debt interests in the issuer or its assets. To date, MAS has not explicitly declared that SFA applies to utility tokens. Thus, similarly to the SEC regime, there appears to be an implied carve-out for utility tokens.

A "utility token" is not a defined term under Singapore law. Solely considering the design of the APFC token, we are of the view that, in itself, the design of APFC:

- (a) constitutes a digital payment token under the PS Act;
- (b) does not constitute e-money under the PS Act;
- (c) does not constitute a "debenture" under the SFA;
- (d) does not constitute the operation of a collective investment scheme under the SFA; and
- (e) accordingly, would not cause APFC to be deemed a "security" or a "capital markets product" for the purpose of the SFA.

Here, applying the Howey analysis above, the sale of APFC tokens does not appear to trigger the SFA securities laws since the APFC tokens function as utility token rather than representations of equity or debt interests.

Conclusion as to whether APFC would constitute a security under the SFA - Singapore

Further, we set out below certain characteristics displayed by financial products which would satisfy the definition of "securities":

- the product provides the holder with ownership interest in a legal entity such as a private limited company or an unincorporated body such as a limited liability partnership;
- the product provides the holder with a payment of interest;
- the product provides the holder with an interest in underlying securities (including equity, shares or debentures);
- the product provides the holder with a direct or indirect exposure to underlying profits and/or losses, or assets and/or liabilities;
- the issuer (or any related company) has a legal obligation to repay the holder for his purchase of the product or the holder has a legal right to sell the product to the issuer (or any related company), such that the holder may potentially receive a "financial benefit"; or
- the product has a feature that allows the holder to convert a product into another token with characteristics set out above or otherwise grants the holder an option to purchase securities.

From the information provided to us, APFC does not appear to exhibit any of these characteristics described in this paragraph.

Conclusion

- 1. At this stage of development, the APFC Token is more likely not to be deemed a "security" under the US, EU, Singapore and other international legislation.**
- 2. In the future stages of development, the APFC Token should maintain the utility legal qualification, based on the Company's business plan and the technical development of the blockchain.**
- 3. We have found no signs of fraud and scam, Ponzi scheme, tort, consumer fraud, known schemes of income laundering and tax evasion.**
- 4. Token buyers do not have any rights to the company's profit. The APFC Token don't give equal rights to their holders. This fact excludes the identification of the Token as securities.**
- 5. The founders of APFC Token do not possess any ability to affect the Token price. The market price of Token does not influence the company's profit, and the company's profit does not influence the Token market price.**
- 6. All scenarios of the turnover of the Token is strictly ordered and implemented on the blockchain by smart contracts. No other scenarios are technically feasible. None of the scenarios of utilizing the Token has the signs of securities rights realizing.**

Still, we recommend the Company to:

- **Avoid granting rights, similar to the rights of shareholders / owners;**
- **Conduct marketing to avoid giving promises of the APFC Token price growth (but, it is possible to make reasonable predictions of the possible growth of the project itself);**
- **Conduct regular legal approach for tracking possible updates.**

Additional Notes

Financial Crimes Enforcement Network ("FinCEN")

FinCEN is a bureau in the U.S department of Treasury, with a mission to safeguard the U.S financial system from illicit use, combat money laundering and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.

FinCEN regulates money transmitting businesses. The U.S code stipulates that anyone who knowingly conducts, controls, manages, supervises, directs, or owns all or part of an unlicensed money transmitting business, shall be fined or imprisoned not more than 5 years, or both (18 U.S. Code § 1960). Per the regulations, a "money transmitter" is either a person that provides money transmission services, or any other person engaged in the transfer of funds.

FinCEN has treated cryptocurrency (convertible virtual currency) as money for the purpose of the law (FIN-2013-G001) and therefore anyone who "(1) accepts and transmits a convertible virtual currency or (2) buys or sells convertible virtual currency for any reason is a money transmitter under FinCEN's regulations, unless a limitation to or exemption from the definition applies to the person".

In a later guidance, FinCEN stipulates that:

"How a user obtains a virtual currency may be described using any number of other terms, such as "earning," "harvesting," "mining," "creating," "auto- generating," "manufacturing," or "purchasing," depending on the details of the specific virtual currency model involved ... What is material to the conclusion that a person is not an MSB [Money Services Business] is not the mechanism by which a person obtains the convertible virtual currency, but what the person uses the convertible virtual currency for, and for whose benefit." (FIN-2014-R001).

In our view, since the liquidity raise (under any factual form), was conducted for a limited number of people as the coins were issued and the users have the option to buy the same and capital was raised from general public and being used for further developments of the project, therefore the APFC Token cannot and should not be deemed as a money transmitter and therefore is not a money services business.

Moreover, per the above excerpt, the liquidity raise (under any factual form) is indeed a “creation” or “manufacturing” of convertible virtual currency, in a very similar way to mining, and so its issuance has been explicitly excluded from the definition of money transmittance.

And lastly, the issuer does not purchase back the issued APFC Token, as a business nor as a dividend, and therefore only “transmits” but not “accepts” the APFC Token. Thus, this activity is insufficient for “exchanger” status.

FinCEN Guidance (FIN-2013-G001) also defines an “administrator”, who is a person engaged as a business in issuing (putting into circulation) a virtual currency, and who has the authority to redeem (to withdraw from circulation) such virtual currency. Such “administrator” requires a license of a money services business.

To address the “administrator” definition, per the data provided us, the Company does not possess the authority nor the power to remove or eliminate the APFC Token from the digital existence, which does not constitute a “redeem”, and therefore the Company is not being an “administrator” per FinCEN’s definition.

Thus, being constructed as it is and in the TGE configuration, we see no relevance of obtaining a FinCEN money services business license for the APFC Token.

Needless to say, APFC Token in general, and as a secondary consideration, the “customers” (the APFC Token purchasers), may or may not utilize the Virtual Currency for investment purposes, or buy the token to use the platform.



Disclaimer:

The above analysis is based on information obtained from a representative of APF DIGITAL AGRIFUND CR s.r.o., the Company’s whitepaper, publicly available information, and the law as it exists as of the date hereof. Considered herein were the U.S. federal, the EU and Singapore securities laws. We have also analyzed other legislations. No opinion is expressed with regard to any other body of law or legal construct, including without limitation the franchise laws of any other country. No court has addressed the question whether any blockchain-based Tokens are “securities” under U.S. federal law; as such, the SEC or a court of competent jurisdiction may reach an alternative conclusion to that stated in this opinion letter. No warranties or guarantees of any kind as to the future treatment of the APFC Token are being made herein.

