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LEGAL OPINION: INOCOIN TOKENS

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I.Introduction and the Nature of Blockchain Tokens

There are many types of blockchain tokens, each with their own characteristics. For example, one kind of blockchain tokens may be used in a blockchain protocol to fuel functioning of an application designed on it. Another kind of tokens may be utilized as a virtual (digital) currency that is served as a certain medium of exchange both within a certain blockchain platform and beyond that.

An inherent feature of any token is to be tradable on a "secondary market" of tokens on a cryptocurrency exchange market. That is to say, a token is free for sale and after being issued is subject to market speculations according to the rules of demand and supply.

However, there is a number of complicated legal issues concerning tokens since some of them may fall into a definition of a security instrument and therefore be subject to the US federal or state securities laws. As a consequence, it means that the sale of such tokens may be illegal for US residents.

In many jurisdictions, there may also be issues under anti-money laundering laws and general consumer protection laws, as well as specific laws depending on what a token actually does.

Based on our analysis of the current case law, regulations issued by the competent government institutions in different parts of the world, including such agencies as SEC (Security and Exchange Commission) or CFTC (Commodity Futures Trading Commission), MAS (Monetary Authority of Singapore), ECB (European Central Bank) and various facts and materials derived from a plethora of ICOs conducted in different parts of the world, we conclude that an appropriately designed token may not entail risks of being recognized as an investment instrument.

Nevertheless, it has to be clearly understood that we can not provide a thorough review aimed at the compliance with the regulatory regime of each jurisdiction. Hence, in this legal opinion we will focus on the United States security law.

This memorandum is devoted to the examination of a token issued by InoCoin on its risks of being considered an investment instrument (hereinafter referred as "INO").

II.Nature of InoCoin

According to the whitepaper existing at the official website of Inocoin (www.inocoin.eu) as of the date of this opinion, InoCoin has been launched by INNOVATION INVEST COMPANY LTD registered in Malta with the registration number: C 85686. And InoCoin is deemed to be a

universal payment tool but also, aside from serving as a platform for obtaining startup capital for the enterpreneurs, it aims to provide an opportunity for any person to take advantage of the innovation and projects being developed also dedicated to be a platform for funding and provision of know-how to startup/early stage Blockchain projects. The startup project is aimed to be financed by Inocoin by the "boost" button on the website whilst it allows investors to fund projects on an individual basis.

"Investors" would be parties that purchase the INO in order to buy, hold, and/or sell them to "users" or other investors with the expectation of future profit in the form of capital gains on the value of the purchased Ino.

III.The assesment under the U.S. Securities Act of 1933

Section 2(a)(1) of the Securities Act of 1933 defines "securities" 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."

The seminal Supreme Court case for determining whether an instrument meets the definition of security is SEC v. Howey, 328 U.S. 293 (1946). The Supreme Court has reaffirmed the Howey analysis as recently as 2004. Howey focuses specifically on the term "investment contract" within the definition of security, noting that it has been used to classify those instruments that are of a "*more variable character*" that may be considered 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." Not every contract or agreement is an "investment contract" and the Supreme Court developed a four-part test to determine whether an agreement constitutes an investment contract and therefore a security. The Court articulated the test as follows: A contract constitutes an investment contract that meets the definition of "security" if there is (i) an investment of money; (ii) in a common enterprise; (iii) with an expectation of profits; (iv) solely from the efforts of others (e.g., a promoter or third party), "regardless of whether the shares in the enterprise are evidenced by formal certificates or by nominal interest in the physical assets used by the enterprise."

In order to be considered a security, all four factors must be met.

1. Under Howey, and case law following it, an investment of money may include not only the provision of capital, assets and cash, but also goods, services or a promissory note. Given the broad definition of a money investment and the fact that INOs will be distributed through a sale by the issuer to the buyers with the price set per token, the first factor will likely be satisfied.

2. Different circuits use different tests to analyze whether a common enterprise exists.Three approaches predominate: (i) horizontal; (ii) narrow vertical and (iii) broad vertical..

a.Under the horizontal approach, a common enterprise is deemed to exist where buyers pool funds into an investment and the profits of each buyer correlate with those of the other buyers. Whether funds are pooled appears to be the key question, and thus in cases where there is no sharing of profits or pooling of funds, a common enterprise may be deemed not to exist. However, note next section. i. Under the horizontal approach, INO may be considered as a common enterprise where the reward for work performed by users and issuer correlates to the reward received by the investors in the form of

capital gains or increase in the value of the tokens they own. Thus, although the issuer has control over the protocol, the rewards received by the investors (e.g., through increase in value of the tokens) would likely be correlated and hence a common enterprise would be deemed to exist.

b. The narrow vertical approach looks to whether the profits of an investor are tied to a promoter.

c. The broad vertical approach considers whether the success of the investor depends on the promoter's expertise. If there is such reliance, then a common enterprise will be deemed to exist. i. Under either of the vertical approaches, however, a common enterprise may not exist given the decentralized nature of the INO framework, whereby INO investors depend on the efforts of the users of the INO, rather than the issuer's expertise (even though in certain cases the issuer may control or influence technical permissions or changes to the protocol). Thus, depending on the level of control exerted by the issuer, the less of a reliance on the issuer's expertise, then the less chance the INO would be viewed as having a common enterprise.

Given the diverging approaches, the law on the "common enterprise" element is somewhat unclear and not easily susceptible to analysis but more to the whims of a given court. Putting things in more practical terms: in one sense, it would appear that the INO platform is a common enterprise because it involves the efforts of users to perpetuate the increased utilization of a system that benefits the issuer and the investors. It would seem to be the case that where the issuer of INO uses the funds derived from the issuance to create, support and maintain the system, a court might find the common enterprise element satisfied. Although not definitive in this regard, depending on how the presale is structured and whether the construction of the system is contingent on those funds, this may increase the likelihood that this element would be met.

3. Under the "expectation of profits" element, profit refers to the type of return or income an investor seeks on their investment (rather than the profits that the system or issuer might earn). Thus, for purposes of INO, this could refer to any type of return or income earned as a result of being a INO investor, which would be narrowed to the extent it is derived passively, i.e., from the efforts of others. Since courts consider this factor through the lens of the "efforts of others" factor, this prong is analyzed along with the fourth factor below. In other words, just because there is a return or profit, does not mean that the investment contract is a security. It is the essentially passive nature of the return, as determined by the "efforts of others" analysis that results in an "investment contract" and "security" as opposed to a simple contract instrument. This factor is probably met in the case of INO since initial buyers of the token would not be its users, and would likely be buying it with the future expectation of profit.

4. "Solely from the efforts of others": typically, courts have been flexible with the word "solely," such that, in addition to the literal meaning, it also will include significant or essential managerial or other efforts necessary to the success of the investment.

a. The expectation of profits resulting from the purchase of INOs would primarily relate to whether a user or investor receives rights and/or investment interests. While nonsecurity token holders may receive money, capital gains, or other forms of financial incentives by virtue of merely owning the token, any such incentives should be derived through their own efforts, rather than through a passive investment.

b. The users would be required to purchase and then authorized by the issuer to utilize the INOs, which would be specifically linked to the users' respective accounts, to access the HealthHeart platform, which would not be considered a passive investment. Rather, the INO users would be active

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participants, like franchisees or licensees. On the other hand INO investors would not utilize the INO on the INOCOIN platform but would purchase, hold, sell, or transfer the INO to others with the hopes of receiving capital gains as a result of greater demand for the INO from users.

c. Furthermore, although an issuer may have some managerial oversight over the system and the distribution of the INO, if neither the users nor the investors possess any voting rights with respect to the management of the INOCOIN platform this would seem to militate toward relying on the "efforts of others," in this case the issuer, and therefore toward the INO being a security.

d. The capital gains aspect of the INO, wherein the investors would expect an increase in value of the INO from the purchase price of the token, would not be dispositive towards either security or non-security status of the INO because the capital gains would occur not only because of the users' actions/efforts but also because of the platform/system itself, in addition to the efforts of the issuer.

e. The manner in which the sale of INO occurs, particularly the promotion and marketing, may also affect the "expectation of profits" analysis. For example, if the language used to promote the INO includes words like "investment," "returns" or "profits," thepurchasers of the INO may be more likely to expect profits from the efforts of others than if the INO is promoted on the basis of the usefulness of the rights attaching to it.

f. Courts have also analyzed the existence of voting rights through this Howey factor. Whether voting rights are determinative of a security will be based on the facts at hand. For example, where (i) the holder is provided with rights that provide it with significant managerial control— i.e., the ability to participate in decisions that will affect the success of the enterprise; (ii) the holder has the resources and expertise to make a meaningful contribution; and (iii) the holder does, in fact, participate in management decisions, the instrument is less likely to be considered a security. This factor appears not to be applicable with respect to INO. Given that users and investors of the INOs have no voting rights; this would tend to push the scale towards the INO being a security in the hypothetical eyes of a court.

5. In conclusion, based on the above analysis of the unique nature of the INO, the security/nonsecurity scale tends to lean ever so slightly towards the INO not being a security because of the failure to meet the fourth factor test due to the active nature of the effort required by users to increase the value of the INO and the fact that such increase in value would not be sufficiently passive with regards to the investors to declare the INO a security (so long as there are no other payments made to the investors). The following will provide a summary of the above factors used in the analysis.

a. INO will be sold for value therefore satisfying the first element of the "security" analysis.

b. INO sale will ocur/occured before the platform/network is operational in the pre-deployment stage, increasing the dependence of the buyers[1] on the issuer/developers to complete and implement the system into the market at a later date. This factor leans towards INO being a security.

c. INOs do not pay a dividend-like return but the only profit expectancy would be that of an increase in value of the INO through increased demand by the users. This factor would tend to shift the scale against the INO being a security.

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[1] Whom are the private investors in this case as the issuer preferred direct selling to private investors instead of an initial coin offering (ICO).

d. The INO has specific functionality which may not be accessed by anyone other than specific INO users; this factor pushes the scale toward the INO not being a security.

e. INOs provide no voting, management, or control rights over the INOCOIN platform, therefore this factors tends to shift the balance toward the investment being passive requiring the reliance by users/investors on the "efforts of others" and therefore toward the INO being deemed a security.

f. INO does not appear to be marketed with the expectation of profit or use investment correlated terms such as "ROI" "profit" or "returns," therefore as a conclusion not all the elements of the Howey test met, in our view, InoCoin token may not be considered a security token but an utility token.

Disclaimer: The above analysis is based on information obtained from a representative of the Inocoin token issuer, the company's whitepaper, and the law as it exists as of the date hereof. No U.S. state or non-US law was considered herein; only U.S. federal securities laws. No opinion is expressed with regard to any other body of law or legal construct, including without limitation the franchise laws of any US state. No court or any administrative body has addressed the question of whether any blockchain 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 Inocoin tokens or similar tokens are being made herein.

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