Draft

Memo: **RE: Tokenomics of the eRSDL Token Minted by Residual Token, Inc. ("Residual")**

General Purpose: Describe the tokenomics surrounding the eRSDL token.

Specific Purpose: We understand it can be difficult to read, retain and process the various sources of information available; especially, when the information sought may not be directly written about in our publicly available corporate workpapers, social media or websites. For the purposes of the whitepaper and the eRSDL token, market participants have an expectation that the creator will be able to describe the uses, rights/privileges (if applicable) and possible factors which may impact the price of the token over time.

Disclaimer: This memo is not a marketing document. This memo is not an opinion of value. This memo does not constitute a solicitation or offer to purchase or sell securities. This information has not been provided to the Securities and Exchange Commission and is for internal planning purposes only. It is confidential in nature. No other use is intended nor implied.

Current State of the Business (11/09/20):

The eRSDL does not currently have a maximum supply cap (amount) by design, but that will not always be the case.

As of the date of this paragraph, the protocol mints coins at a fixed amount per block; namely 100 eRSDL. This amount cannot be changed and is provided to liquidity stakers. This feature, inherent in the protocol, is meant to incentivize the building of a liquidity pool. The liquidity pool is a foundational element of our payment latency protection platform.

It is our belief that as institutional money enters the pool, and we're making good progress there, the need to incentivize will abate. This has been the plan all along, and is the plan for the foreseeable future.

Setting a Max Cap

If we were to remove the incentive option, liquidity would drop. One alternative is for the Team to sell large numbers of company tokens to get ETH and to post more liquidity. We do not believe this tactic is in the best interests of our stakeholders for multiple reasons. We have been selling small amounts over time to allocate to the liquidity pool (see also: Transparent Accounting channel in Discord for any txns related to the Project). We are balancing that activity with the need to pay operational, development and legal expenses. Given our desire to not disrupt pricing with these transactions, we expect it will take time to build sufficient liquidity this way.

We are in discussions with certain high net worth individuals regarding the sale of tokens directly, and using a part of the proceeds to increase the liquidity pool. We welcome community feedback on accelerating the sale of eRSDL to stake and lock liquidity. This would speed up the implementation of a maximum token cap. and allow us to remove the staking rewards.

Maximum Cap Estimates

We recommend interested parties map out potential total eRSDL outstanding assuming diminishing staking rewards and our own operability by late Q1 / early Q2 2021. Our own projections have us around 400 million in tokens as the maximum cap, where 500 million eRSDL tokens looks like the absolute high. Circumstances change and a number of key variables could force us to revisit these estimates. However, even today this range feels very feasible given the current eRSDL onBoarding conditions.

Other Options

We have considered following the SushiSwap(R) model (see also: link below) to head towards a maximum cap. Installing this feature might solve the perception gap for some, while exposing us to business risk down the line. We welcome your feedback once we begin to work through a more detailed MaxCap plan.

https://snapshot.page/#/sushi/proposal/QmQ567b5Bwg6oUb7xqr1bpQ5JDUTHAYAozkUUdrsCfVs1V

We have setup a Snapshot we will roll out when the timing is right soon:

https://snapshot.page/#/unfederalreserve

Important Note: (Technical Details) Why the Team CANNOT Mint Tokens

The Team cannot mint tokens at its discretion.

There is a fixed and unchangeable amount of rewards that are given per block. This reward per block cannot be changed by the team. We are not owners of the contract. The MasterUnChairman contract owns the contract and it can only mint that reward amount per block.

https://etherscan.io/address/0x5218e472cfcfe0b64a064f055b43b4cdc9efd3a6
https://etherscan.io/address/0xF8377270af0c864d2b3BAB73BB16c65b05767549#code

These are verified on Etherscan and have always been linked on our staking site showing that we cannot mint new tokens ourselves. This information has always been and will remain publicly available.

Tokenomics Background:

The eRSDL token is a utility token. The token affords many privileges, including the limited ability to participate in the development and execution of Residual's business plan regardless of the number of tokens one holds. Further, a certain aggregation amount ("Minimum") affords specific privileges; namely in conjunction with Residual's permission, the Minimum allows access to Residual Token, Inc.'s protocols. The following table illustrates a number of open resources for all token holders and the limited features available to those wish to qualify as Lenders.

Feature	All Holders	Lenders
Available News, Updates, Articles	X	
Open Forum Discussions	X	
Access to Manuals, Policy and Procedure Guides	X	
Source Code for Base Model		X
Access to Flowcharts, Presentations, etc.	X	
Loan Performance Dashboard Information*		X
Lending Demographic Data[1]	X	
On-chain Governance	X	
Voting Rights[2]	X	
Potential Committee Appointments[3]	X	X
Advanced Lending Toolkit		X

PLEASE NOTE: That Lenders need the Minimum in order to use the Standard FTP Toolkit® protocols. A basic version of the lending platform and an accompanying manual will be made available for those who wish to start their own eRSDL-based platform.

The Residual ecosystem, and thus the protocols, consist of a combination of decentralized public and private ledgers, centralized systems and manual processes. One of Residual's goals is for the back-office and middle-office parts of the platform to operate largely autonomously. Overall, if the products created by Lenders and those using the basic toolkit are good loans, than the ecosystem will thrive. Competiveness as it relates to servicing, marketing, custody/title, and collateral disposition will only serve to make the pricing of products run through the platform better. The open source reporting and performance metrics will favor high quality ecosystem participants.

We intend to structure the environment using the Sushiswap Token model. Therefore the total is undeterminable until capped.

We recognize that the price and quantity of the tokens will be influenced on the following assumptions and conditions:

- The number of potential system lenders is unknown
- The initial number of lenders is probably 4 or 5
- Initially we will have one service level (binary [e.g. you either have (X or more) or you have less than X]
- Entrants may enter at any time
    - Depending on the manner with which they enter the system, token holders may be subject to lock-up periods

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[1] Subject to privacy restrictions

[2] Voting rights require a one-year lock-up for the number of votes sought in order to maximize participation from those interested in the longer term success of the Company

[3] Large block token holders and Lenders may be invited to participate on special committees tasked with generating various referendums subject to Residual management's fiduciary responsibilities to debt and equity holders

- For instance,
  - Founders/Employees: scaled token lockup from acquired date
  - Advisors: 1-year lockup starting one-quarter after acquired date
  - Lenders: Scaled lockup from acquired date
  - Residual Token, Inc: Various not to exceed 7 years depending on how tokens are earmarked for use going forward

- Exiters may exit at any time
- Tokens will not be created and destroyed once minted unless decided upon by vote of hodlers.

The protocols governing access would be able to have the following information in verifying a Lender and a service level:

- Amount of tokens held by a Lender
- The purchase timing and average price paid by the Lender for his tokens
- Market Value currently of the Lenders tokens
- The price paid by the last verified Lender (indicated by a separate token type provided by Residual)
- Count of Lenders (using our token)
- All the above factors for all lenders (e.g. timing, cost basis, fmv, quantity)
- Total minted tokens
- Total available to be minted tokens
- Current required Minimum (defined below) tokens

Current State

Maximum Supply and Supply Mechanics

Findings:

There are two issues contemplated here:

1. One, the Minimum at the token sale date, and subsequent dates; and,
2. Two, voting rights.

I. The Minimum

1. Develop an OR-based requirement for the business. Minimum will consist of:
   a. A fixed number of tokens (X), or
   b. A set percentage (Y%) of all issued tokens
   c. **Note:** As of the writing of this memo, at issuance these two will be the same number

(I.e. X = Y% * Total number of tokens minted), or

2. Management or token holders, subject to the 3% referendum threshold and in a manner consistent with the one described in the Voting Rights section below, may put forth for vote a new Minimum:
    a. Token holders elect to change the Minimum
    b. Presumably, New X = New Y% * Total number of tokens outstanding, but this is not a requirement
    c. Changes will go into effect a minimum of 2 days after the change is approved or on a date selected by the token holders not be less than 2 days or greater than 120 days.

3. Selected Minimum options to be eligible for vote by token holders will be based on market conditions and must respect Management's fiduciary responsibility to existing debt and equity holders.

II. Voting Rights

4. eRSDL token holders will have **voter rights** with limited privileges;
    a. Unlocked token holders must elect to lock their tokens for a period of [X]-year to vote; where [X] is as yet to be determined;
    b. One token, one vote;
    c. Any tokens held by Residual Token, Inc. are considered abstentions and not factored in the totals counted; and
    d. Generally will be able to vote on issues. For instance, under varying circumstances or through aggregation of a enough tokens to float a referendum, token holders may elect[4];
        i. Members of the board of directors,
        ii. Changes to the Minimum
        iii. The onboarding of a new Lender, and
        iv. The establishment of corporate objectives and policy.

5. A super-majority, which as of the writing of this memo is **60%** of the minted tokens, is necessary to pass any referendum;

As it relates to the initial token price,

[4] Subject to the basic consideration that Management not be compelled by vote to take any action that would be contrary to its fiduciary responsibility to its debt or equity holders, take any action that is illegal nor pursue an objective outside its core business model as a consumer and commercial lending platform.

No. of Lenders	5	15	35	75	155	320	500
Lender Token (RSDLL) Minimum	150,000	150,000	125,000	125,000	100,000	100,000	75,000
Tokens (Beginning)	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
- Lenders	750,000	2,250,000	4,375,000	9,375,000	15,500,000	32,033,333	37,500,000
- Non-Lenders	9,250,000	16,022,500	21,350,063	22,727,688	21,086,625	7,727,242	5,870,575
- Residual Pool ("RCP") - For Lenders/Partners/Sales	19,000,000	17,100,000	15,200,000	11,400,000	7,600,000	3,800,000	-
- RCP - Infrastructure Development / Marketing	5,000,000	3,350,000	1,700,000	-	-	-	-
- Company Founders (2018) and Employees (Commission)	8,500,000	6,871,250	5,124,938	4,622,313	5,813,375	6,439,425	6,629,425
- Advisors	7,500,000	4,406,250	2,250,000	1,875,000	-	-	-
Tokens Ending	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Equity Funded Portion (%)	25%	25%	25%	25%	25%	25%	25%
Equity Funded Portion ($)	70,312,500	485,314,850	1,478,402,256	3,422,402,256	6,338,402,256	11,738,930,772	18,750,000,000
Return on Equity (%)	15%	15%	15%	15%	15%	15%	15%
Return on Equity ($)	10,546,875	72,797,227	221,760,338	513,360,338	950,760,338	1,760,839,616	2,812,500,000
Portion of Return attributable to Token (15%) ($)	1,582,031	10,919,584	33,264,051	77,004,051	142,614,051	264,125,942	421,875,000
Return Dollar per Token (Lender)	$ 2.11	$ 4.85	$ 7.60	$ 8.21	$ 9.20	$ 8.25	$ 11.25
Other Uncertainty	150%						
PV of RDT	0.84	0.78	0.49	0.21	0.09	0.03	0.02
Implied Token Price (Rounded)	$ 2.01						

A Token Price Example

The value of finite blockchain-assets, referred to as digital assets, tokens or cryptoassets, is highly uncertain and dependent on a variety of observable and unobservable factors. Many attempts to quantify the basis for the value of various tokens are publicly available, and generally based on combinations of existing economic theory and conjecture. Our calculations, above, do not constitute a formal opinion of value, and are simply calculations of factors which may influence the eventual observed price for Residual's eRSDL token.

The eRSDL Minimum is akin to a taxi-cab medallion or other type of Certificate of Public Necessity

(CPN); meaning, that in order for a Lender to operate the Advanced Lending Toolkit protocols each must maintain a defined quantity of the token. If a taxi-cab company wishes to make money ferrying passengers, its drivers and vehicles must be licensed and registered respectively. Similarly, Lenders wishing to use the platform must obtain a permission from Management (or in certain cases other token holders as described in the Voting section above). The combination of this permission and Minimum allows the Lender to make loans through the Company's platform. The basic lending platform software is available, and we encourage market participants to leverage that software for their own eRSDL-based lending system.

There is an active market for CPN speculators, and we suspect the same behavior will be present in our ecosystem. The token value, of which Residual is agnostic, will be most correlated to the performance of the people and entities using the platform, the entry demand from additional Lenders, the Minimum and the supply of eRSDL.

Based on market data, CPNs generally earn a 5% to 10% return to their investment. Using that information, we solved for the implied token price that would generate a similar return based on a Royalty Method calculation.

Our analysis only considers Lenders' performance and not the performance of non-Lenders using open source version of the platform for their own purposes. Our loan production and Lender count by year assumptions are based on Residual's current pro forma estimates. For example if we set the Minimum at 150,000 tokens to start since it is easily divisible into an assumed 50,000,000 tokens to be minted, it provides platform space for plenty of Lender participants, non-Lender parties and Residual's coffers. The amount of loan principal to be equity funded was estimated based on like risky assets. As the digital asset price volatility settles, and the profitability of the Lenders materializes, we expect Lenders will be able to secure traditional debt financing to offset the more expensive equity capital per dollar. However, for our purposes we held the required equity contribution flat at 25% over a ten-year period. In addition, as competitors enter the market and leverage increases, returns on equity may remain flat or fall. We assume returns on equity around 15% will be required throughout the sample period.

The resultant dollars reflect the profitability of the Lenders since Return on Equity (ROE) is Net Income / Average Outstanding Equity. We then assume that a 15% royalty rate on Net Income, at a 33% profit margin, would be a 5% royalty on Net Sales. This is ballpark for the taxi industry, so we'll use as a proxy here. The resulting cash flows are essentially the post-tax cash flow attributable to the license. There is great uncertainty with the business model as of the date of this memo.

Uncertainty is applied to the cash flows in the form of a discount rate. Discount rates account for the likely error in the projections. Given the nascent stage of the blockchain industry, the unproven concepts Residual proposes and the overhang of multiple regulatory agencies (and the uncertainty around their future actions) we applied at 150% discount rate to the eRSDL-related cash flows. If we close off the window at 10-years for our projections, then the present value of the proceeds directly attributable to the eRSDL token is approximately $2.01/token.

What is interesting from our perspective around this result is its consistency with the costs of other enterprise software solutions. Take for instance financial services firms that use Bloomberg, Thomson Reuters or S&P Capital IQ for market data. These platforms run on annual subscription for anywhere from $50,000 to $100,000 depending on the number and type of licenses and features. Moody's RiskCalc, and product technology software may easily run in this price range. If a Lender were to buy eRSDL on the open market at $2.01/token, then the out-of-pocket would be about $300,000. Were one to assume that life on the platform is 3 to 5 years (and hopefully more), then the software costs similarly range from $60,000 to $100,000.

The per token price can vary substantially based on a variety of external and internal factors on the run. For instance, should the regulatory environment prohibit the existence of these instruments or Residual is unable to deliver a platform consistent with market expectations, the value of the token could easily be $0. However, should non-Lender demand or Lender demand exceed expectations, then the 50,000,000 tokens originally contemplated will be absorbed by this population and cause the perceived value of the token to rise.

Economic Theory

Melcalfe's Law: n x (n-1) = n2 – n , the value of the network goes up as the square of the number of users. This is an indication or rule of thumb as a opposed to a law. If 10 people use a network, its value is 100, but 100 people use the system then its value will be 10,000.

In the case of Residual, we would consider the number of Lenders on the ecosystem the true driver of value for the eRSDL token, as speculators will not be able to generate the profitability using the lending protocols. Going back to the ROE forecast, we note that in the out years before the Minimum is decreased the return per token increases significantly. Coupled with reduced risk resulting from a vetted system, more accepting marketplace and additional digital assets available as collateral and price per token could be dramatically increased. It is not the intention of Residual to focus on the absolute value of the eRSDL token, but rather provide robust protocols and support the participation of as many Lenders is possible in consideration of the limited number of tokens minted.

In their paper, "How Value is Created in Tokenized Assets,"[5] the authors describe how wide knowledge of a subject increases its value without necessarily increasing the system's understanding of the nuances behind what makes the subject interest more valuable. One could foresee similar circumstances here as the Founders attend and speak at numerous conferences, publish papers and work to onboard additional Lenders. Here too, the scarcity of eRSDL and its necessity to operate the platform will have a directional impact on the intrinsic value of the token.

As part of the paper, the authors also leverage Jeffery Timmons', "Timmons Model of Entrepreneurship" to assess the attractiveness of various ideas. This scorecard breaks down the entrepreneurial concept into five buckets where each is scored from 1 (worst) to 5 (best). The average is then determinant of the ideas position relative to the comparable set. In this case, the authors used a series of questions and answers for

[5] Hargrave, John and Sahdev, Navroop K. and Feldmeier, Olga, How Value is Created in Tokenized Assets (February 28, 2018). Available at SSRN: https://ssrn.com/abstract=3146191 or http://dx.doi.org/10.2139/ssrn.3146191

a large population of ICOs to establish a mean (3) score. Each section has a series of questions behind it, and our self-graded score and rationale are described here:

- Market Potential – (score: 4.5) – the size of the market for the platform is in the billions of dollars and by some counts may be backed by trillions of dollars in assets.

- Competitive Advantage – (score: 3.5) – a number of parties are trying to solve this problem. Residual's main advantage is in leveraging domain expertise up-and-down the vertical with deep regulatory, control and execution experience.

- Management Team – (score: 4) – The advisory team members' backgrounds complement one another; namely, the team consists of PhD's and programmers, but also former mortgage origination platform builders and executives running lending platforms today.

- Token Mechanics – (score: 3.5) – The basic question is whether the problem requires a blockchain solution. Residual sees the opportunity to digitize assets for which there is no other method to currently bundle as collateral and leverage for immediate financing. The team foresees challenges mapping the tech to existing processes, but nothing so insurmountable as to warrant reconsideration.

- User Adoption – (score: 4.5) – Lender margins are decreasing and regulatory challenges are increasing. The Residual platform is a turnkey, bolt-on solution which facilitates higher margins. Integration is straightforward and the product vanilla relative to many consumer lending options. Borrowers have already shown interest. In fact, our loan application screen produced 20 borrower applications in first two weeks with a single Facebook ad.

At a high-level, the Residual product and eRSDL token score a 4, which implies significant market acceptance of the Company's value proposition.