May 28th, 2022

Att. Areon Network

Ref. Legal Opinion on the $AREA Token

Dear Sirs,

Areon Network (Hereinafter the "Company") has requested a legal opinion regarding the legal nature of the Areon ("$AREA", or "Token(s)"). To these aims, we hereby provide our opinion on the legal qualification of the $AREA as to whether it trigger relevant security laws provisions in the United States of America (hereinafter "US" or "USA").

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I. SCOPE OF OUR WORK

The content of this legal opinion is based on the following information provided to us: (i) The White Paper entitled "*Areon Network Most advanced Blockchain-based virtual world. White Paper V1.0 August 2021*" (hereinafter the "White Paper"); (ii) the website script (the "Website"); and (iii) information provided by the Company. The analysis, comments and conclusions set forth in this legal opinion are based solely on our review of such information and research of the pertinent legislation, regulations and case law in force as of the date hereof.

For purposes of this legal opinion, we have not conducted any investigation as to factual circumstances. This opinion is merely informative and does not address matters of fact. It should be taken into account that the legal analysis herein may be updated in the future as new laws, regulations or case law arise. Likewise, judicial and/or administrative authorities may reach a different conclusion from the one set forth below. No guarantees or assurances are given herein regarding the legal qualification of the Token.

II. EXECUTIVE SUMMARY

We have considered whether the $AREA shall be classified as a Security Token or a Utility Token. After the analysis of the information we received, it is our view that, provided that such information is accurate and complete, the $AREA shall be considered a Utility Token. We base our conclusion on the fact that, according to the documents reviewed, $AREA Tokens do not pass the Howey Test and do not have the most common characteristics of Security Tokens.

III. DESCRIPTION OF THE $AREA TOKEN

In order to facilitate the analysis and conclusions that follow, the key aspects of the $AREA, relevant for the purpose of this legal opinion, will be summarized in this section.

According to the White paper *"Powered by Binance blockchain, Areon network is a virtual reality city, NFT Marketplace and online workshop platform."*

The goal of the project is to make *"NFTs much easier to use, trade and create as we enable greater adoption and significantly increase the volume of the NFT World, with our faster and more cost-effective solutions. We are building a scalable cross-chain token network."*

According to the White paper "*In AREON NETWORK, we are laying the foundations of the virtual universe that can create its own economy, which is based on Areonchain, which will continue to grow forever and will not need any management."*

Furthermore*, "Each transaction node confirmation distributes a block reward to all Area Land holders equal to the amount of Area Land they hold. This technology is unprecedented and designed by AREON NETWORK. There are 2 different methods to obtain 1 out of 50,000 Area Land in Areon City. 1- Buy Areon Land. 2- Reward system with Proof of Area Block stakes."* The White paper further explains that *"Proof of Area technology completes transaction verifications based on who holds the most AREON AREALANDs for transaction confirmations. This is also part of a unique loyalty program."*

The White Paper holds that the core elements of the ecosystem are: METAREON (NFT MARKETPLACE), *AREON* CITY, PROOF OF AREA (POA) and AREON ACADEMY.

As regards the NFT marketplace the White Paper states that *"you are rewarded with AREON token for every transaction made in the areon NFT market. if you wish, you can place a BID on the entire NFT- collection."*

As regards Areon City, it is explained in the White paper that *"AREALANDs can be sold and leased to each other at different prices depending on the location of other users on AREON NETWORK in AREONCITY. Users become titleholders of Areon City land on a blockchain-based parcel ledger. This piece of land will be a non-tradable but transferable digital asset stored on Areonchain. Depending on their own budgets Land owners can increase their value by purchasing house types, workplace types, interior design and exterior design, or they can open their own businesses and rent them as a means of earning money."*

As regards the AREON Academy *"From business and technical education courses to language courses, from art courses to health education, everyone at Areon online workshop is both an educator and a student. We are committed to reshape the future of learning." ". In Areon online workshop, educators get paid in Area token. Students pay with Area token. In addition to the tuition earned or paid, you earn 2% extra AREA tokens to your total AREA token volume. There is no waiting period, you can get the tuition fee on the same day."*

In is clear in the white paper that *"The official currency of Areoncity, Metareon, Areon Academy is AREA Token. You will be rewarded for every transaction made with Area Token."*

IV. HOWEY TEST ANALYSIS

Pursuant Section 2(a)(1) of the Federal Securities Act of 1933 (hereinafter the "Securities Act" or "Security Law") a security is:

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

The Securities Act tend to control issuing of securities and to testify particular interests attached to them. However, the Securities Act prioritizes substance over form. Therefore, if the SEC believes that any kind of cooperation is promising future profits arising from the mere signing of a contract, it may investigate the case and declare such contract a security. In that scenario, parties to such contract shall disclose particular information to the SEC.

In the SEC v. Howey, 328 U.S. 293 (1946) case, the US Supreme Court came up with the "investment contract" standard to determine whether an instrument meets the definition of a security, as follows:

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

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

Consequently, the standard for determining the existence of an Investment Contract has the following prongs that must be cumulatively fulfilled: (i) investment of money; (ii) common enterprise; (iii) expectation of profits; (iv) solely from the efforts of others.

In the following we will analyse whether the $AREA meets these criteria and should, therefore, be categorized as an "investment contract".

(i) investment of money

With regard to the first prong, the Supreme Court has held that the only requirement is *"tangible and* definable *consideration in return for an interest that had substantially the characteristics of a security.*" According to the White Paper and the information provided to us, $AREA is an in-platform currency as its purpose is to serve as a means of exchange within the ecosystem. The main motivation buyers seek when engaging with the ecosystem is to participate in the NFT marketplace, *Areon* city, proof of area (POA) and Areon academy. Therefore, there is no tangible expectation of any financial gain solely from the Tokens. Consequently, this prong is most likely to not be fulfilled.

(ii) common enterprise

The Supreme Court has not specified a definition of a common enterprise. The standard to analyse the existence of an underlying contractual relationship of the parties has been developed by US Federal Circuits as follows: "horizontal commonality" and "vertical commonality".

Horizontal commonality is found when (i) investors' contributions are pooled together; and (ii) the fortune of each investor depends on the success of the overall enterprise, usually combined with the pro-rata distribution of profits. On the other hand, vertical commonality is found when the investors' fortune depends on the expertise of the promoter or third parties.

However, it must be noted that there is no uniform understanding over the term "common enterprise". Regarding cryptocurrencies, there is a unanimous understanding in US circuits that horizontal commonality satisfies the second prong of the Howey test, but they are divided as to

whether vertical commonality suffices.[1] Moreover, the Securities Exchange Commission (SEC) does not require vertical or horizontal commonality *per se*, nor does it view this element of the Howey Test as a distinct element of an investment contract.[2]

In the case at bar, there is no horizontal commonality, as there is no pooling of funds and the fortune of each user depends on their use of the ecosystem. Additionally, there is no pro-rata distribution of profits.

Moreover, there is no vertical commonality, as investors' fortune do not depend on the promoter (the Company). By purchasing $AREA, users accept risks of a different nature than those risks assumed by the Company. The Company's risks are associated with, among others, problems with developers, inability to develop or launch the platform, lack of users, etc. In all such cases, promoters' risks do not correlate with those of the users. The latter are in risk only if the declarations contained in the White Paper are not implemented. As a concussion, the second element of the Howey Test is not satisfied.

(iii) expectation of profits (iv) solely from the managerial efforts of others

There is an "*expectation of profit derived from the entrepreneurial or managerial efforts of others"* when potential investors: (i) expect to receive profits from their own efforts; or (ii) from the efforts of the Company.

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

The US Supreme Court stated, "*The touchstone is the presence of an investment in a common venture premised on a reasonable expectation of profits to be derived from the entrepreneurial or managerial efforts of others*."[3]

In addition, the SEC staff noted that "*the main issue in analysing a digital asset under the Howey test is whether a purchaser has a reasonable expectation of profits (or other financial returns)*

[1] *Ltd*, 265 F.3d at 49–50
[2] *Barkate*, 57 S.E.C. 488, 496 n.13 (Apr. 8, 2004); Commission's Supplemental Brief at 14 in *SEC v. Edwards*, 540 U.S. 389 (2004) (on remand to the 11th Circuit).
[3] 421 U.S. 837, 852 (1975)

derived from the efforts of others. A purchaser may expect to realize a return through participating in distributions or through other methods of realizing appreciation on the asset, such as selling at a gain in a secondary market."[1]

In this case, according to the White Paper users will acquire $AREA to use it as an in-platform means of exchange. Therefore, this prong will most likely not be met.

A. Summary and conclusion

The $AREA does not cumulatively satisfy the four prongs of the Howey Test. As a consequence, in our opinion, the $AREA does not meet the US SEC's Howey Test as a security and is not subject to enforcement.

In the interest of clarity, it should be noted that the analysis set forth herein reflects only our opinion and assessment to the best of our ability. Judicial and/or administrative authorities may reach a different conclusion. Moreover, the result of the analysis elaborated herein can substantially change after a ruling on the matter or further regulations are issued. There is no assurance and no representation or warranty is provided as to the legal qualification of the Tokens.

V. OTHER JURISDICTIONS

We have studied the laws and caselaw in the most relevant jurisdictions for the subject matter. Generally, they define a security as a collection of rights relating to a company. In view of such analysis, we are of the opinion that a token with the following features may constitute a Security token and would therefore be subject to regulation:

a) Ownership interest in a legal person, including a general partnership;

b) Equity interests; bonds; financial instruments

c) share of profits and / or losses, or assets and / or liabilities;

d) Status as a creditor or lender;

[1] Framework for "Investment Contract" Analysis of Digital Assets (2019), available at: https://www.sec.gov/corpfin/framework-investment-contract-analysis-digital-assets#edn1

e) Application for bankruptcy as a holder of interest on the capital or creditor;

f) Holder of an obligation to repay the system or the legal entity issuing the Token; is

g) A feature that allows the holder to convert a non-Security token into a Token or instrument with one or more investment interests.

h) Voting rights in the company

On the other hand, it is our opinion that a token with the following characteristics will be characterized as a utility token:

a) Rights to program, develop or create functionality for the Ecosystem;

b) Ecosystem access and use;

c) Rights to contribute to the work or governance of the Ecosystem;

d) Right to purchase goods or services on the Ecosystem;

g) Rights to sell goods or services on the Ecosystem;

e) Voting rights in terms of features and functionality of the Ecosystem.

In the case of the $AREA, the general features of Security Tokens are not present. $AREA do not entitle holders to ownership of the Company, voting rights, profits nor liquidation rights. Consequently, it is our opinion that $AREA is likely to not be characterized as a Security token in most jurisdictions and, therefore, it will not infringe local securities laws.

B. Summary and conclusion

As a logical conclusion of the foregoing, it follows that the $AREA has its own utility regardless of the Company's resources and do not correspond to the assets of the Company. It is also clear from the White Paper that $AREA holders do not acquire ownership or equity of the Company. As a consequence, we are of the opinion that the $AREA Token shall be classified as a Utility Token in most jurisdictions. However, it should be noted that the analysis set forth herein reflects only our opinion and assessment to the best of our ability. Judicial and/or administrative authorities may reach a different conclusion. Moreover, the conclusions reached herein can substantially change after a ruling on the matter or further regulations are issued by the competent authority. There is no assurance and no representation or warranty is provided as to the legal qualification of the Tokens.

VI. USA ANTI-MONEY LAUNDERING ACT OF 2020 AND FINCEN REGULATION

On January 1, 2021, the US Congress passed the Anti-Money Laundering Act of 2020 ("AMLA"). Section 6102(d) of the AMLA expanded the definition of "financial institutions" to include businesses involved in the exchange of "value that substitutes for currency or funds." This encompasses NFT marketplaces and applies to the Company.

Moreover, the Treasury Department's Financial Crimes Enforcement Network ("FinCEN") guidance considers "money services business" subject to registration before the FinCEN. Moreover, these businesses must comply with both Bank Secrecy Act ("BSA") reporting requirements and "know your customer" due diligence obligations, as well as implementation of an anti-money laundering compliance program.[1]

A "money services business" is any person doing business, whether or not on a regular basis or as an organized business concern, in one or more of the following capacities:

(1) Currency dealer or exchanger (with an activity threshold of greater than $1,000).
(2) Check casher (with an activity threshold of greater than $1,000).
(3) Issuer of traveler's checks, money orders or stored value (with an activity threshold of greater than $1,000).
(4) Seller or redeemer of traveler's checks, money orders or stored value (with an activity threshold of greater than $1,000).
(5) Money transmitter.[2]
(6) U.S. Postal Service.

The Company shall qualify as a Money Services Business (MSB) because, according to the information provided, it will operate as a money transmitter. Therefore, the Company shall be subject to registration before the FinCEN.

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[1] Fin. Crimes Enf't Network, U.S. Dep't of the Treasury, FIN-2019-G001, Application of FinCEN's Regulations to Certain Business Models Involving Convertible Virtual Currencies 21 (2019), *available at* https://www.fincen.gov/sites/default/files/2019-05/FinCEN%20Guidance%20CVC%20FINAL%20508.pdf; *see also* 31 U.S.C. § 5330; 31 C.F.R. § 1022.380.

[2] Person that provides money transmission services, or any other person engaged in the transfer of funds.

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Yours truly,

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