

TOKEN CITY S.L. INVESTMENT ROUND BACKGROUND DOCUMENT

Madrid, May 22nd 2023

1.- EXECUTIVE SUMMARY

This document describes the investment round proposed by TOKEN CITY, S.L., a Spanish company, duly incorporated under Spanish law and operating in accordance with its articles of incorporation and bylaws, domiciled at Paseo de Aguadores, N3, 28804 - Alcalá de Henares, (Madrid), incorporated on July 10, 2020 with tax identification number B-01729144, in a deed authorized by the Notary of Madrid, Mr. Pedro Antonio Mateos Salgado under no. 5,452 of his protocol, and recorded in the Trade Register of Madrid under volume 40,759 and page M-723108 (hereinafter, the "**Company**" and/or, where applicable, the "**Issuer**").

Specifically, this document contains information on the Company and its planning (descriptive information on the project, potential market, financial projections, financing structure, etc.). The following is an executive summary of this information. The investor should base their investment decision on the totality of the information in this document and not only on the information in the Executive Summary.

The activities performed by the Company within its corporate purpose are, among others, the provision of asset tokenization services and the software maintenance of such assets, and the development of technologies so that any company can manage and monitor its own tokenized assets and facilitate their transmisión.

The purpose of the funds raised in this round is twofold:

1. funding the development of a **European Secondary Market Exchange**, regulated as a Trading and Settlement System for **Stocks, Bonds and UCITs** on Blockchain (hereinafter, the "**European Project**"), which is currently in the Regulatory Sandbox of the National Securities Market Commission (CNMV) for its adaptation to Regulation (EU) 2022/858 of the European Parliament and of the Council, in force since March 2023, on a Pilot Regime for market infrastructures based on decentralized ledger technologies (the "**Pilot Regime Regulation**"); and
2. funding the development of a **Secondary Market Exchange in Switzerland**, regulated as a **Securities and Derivatives** Trading and Settlement System by the Swiss Financial Market Supervisory Authority (FINMA), through a subsidiary of **the Company** incorporated in Switzerland for this purpose (hereinafter, the "**Swiss Project**");

The European Project and the Project in Switzerland shall be jointly referred to as "**The Project**".

In addition, the Company's Extraordinary General Meeting of Shareholders will be used to approve the issuance of a share token to the Company's shareholders, representing a number of shareholder rights.

2.- GENERAL INFORMATION

2.1.- Responsibility for the content of the document

The Company accepts responsibility for the contents of this document and declares that, to the best of its knowledge and careful management, the information set forth herein is accurate and no relevant data or information has been omitted that may affect the investment decision of the potential investor. In this regard, in the event of any discrepancy or translation, the Spanish document shall prevail over other languages, the latter being the language of completion of this document together with the Investment Agreement.

2.2.- Company information

2.2.1.- Legal entity and contact details.

The Company: TOKEN CITY, S.L.

Fiscal Address: Paseo de los Aguadores, Nº 3, 28804 – Alcalá de Henares (Madrid)

Incorporation information: incorporated on July 10, 2020 with tax identification number B-01729144, in a deed authorized by the Notary of Madrid, Mr. Pedro Antonio Mateos Salgado under no. 5,452 of his protocol.

Datos de inscripción: Trade Register of Madrid under volume 40,759 and page M-723108

Tax ID: B-01729144

Teléfono: 687.892.019

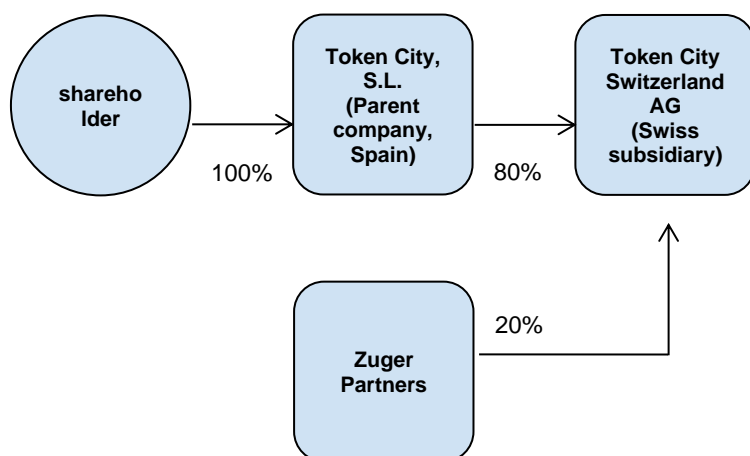
E-mail: info@token-city.com

The legal structure of the Company is a limited liability company incorporated and governed by the laws of Spain.

2.2.2.- The Company's main activity

The provision of asset tokenization services and IT maintenance of such assets, as well as other technological services so that any company can manage and monitor its own tokenized assets and facilitate their transmission.

2.2.3.- Current corporate structure



2.3.- Investment features

The round has a dual purpose, both being carried out at the same time:

1. on the one hand, funding the European Project, with a reference investment target of €1.100.000; and
2. on the other hand, funding the project in Switzerland, with a reference investment target of €400.000.

2.3.1. Amounts and investment terms

Investments in the Project will be channeled via a capital increase through the creation of new social shares with a nominal value of €1 each, and with the same political and economic rights as those currently in existence. The share premium is:

- €769 per share for amounts invested during the private pre-sale phase, prior to the public launch on June 12, 2023 (€9.6M pre-money, at maximum dilution, including phantom shares and other outstanding rights, 36% discount on the reference valuation at the end of 2023);
- €801 per share for amounts invested before July 31, 2023 (€10M pre-money, at maximum dilution, including phantom shares and other outstanding rights, 33% discount on the reference valuation at the end of 2023);
- €961 per share for amounts invested before October 31, 2023 (€12M pre-money, at maximum dilution, including phantom shares and other outstanding rights, 20% discount on the reference valuation at the end of 2023);
- € por participación para los desembolsos realizados antes del 30 de noviembre del 2023 (pre-Money de 15M€, en dilución máxima, incluyendo phantom shares y otros derechos vigentes, establecido como valor de referencia al cierre del 2023)

- €1.201 per share for amounts invested before November 3, 2023 (€15M pre-money, at maximum dilution, including phantom shares and other outstanding rights, as per the reference valuation at the end of 2023);

The newly issued shares are expected to represent approximately 10% of the capital stock.

Attached to this document as Annex I is the Investment Agreement.

2.3.2. Commitment to the Project's Shareholders Agreement

Investors who enter the Project will be required to adhere to the Shareholders Agreement ("**Shareholders Agreement**"), which exists as a precondition to the subscription of the new shares in the Company. The Shareholders Agreement, together with the agreement to adhere to it ("**Accession Agreement**"), will be provided to the investors privately, once the Investment Agreement has been formalized and the corresponding disbursements have been made or, previously, at the investor's request and upon signature of a confidentiality agreement between the investor and the Company ("**Confidentiality Agreement**").

2.3.3. Capital raising process

Investment for the Project will be raised through private contacts and via the Company's website: <https://invest.token-city.com>.

The investment target for the European Project is €1.100.000, but it will be considered successful when at least €500.000 is raised ("**European Project Soft Cap**") and may be over-funded up to €1.500.000 ("**European Project Cap**").

The investment target for the Swiss Project is €1.100.000, but it will be considered successful when at least €320.000 is raised ("**Swiss Project Soft Cap**") and may be over-funded up to €500.000 ("**Swiss Project Cap**").

2.3.4. Project results, returns for investors, payment method and full divestment.

The returns for the investors in the Project may be generated either through the distribution of dividends from the Company or through the transfer of their shares, all in accordance with the provisions of the Company's Shareholders' Agreement, to which the investors must adhere as a condition to the subscription of the new shares. The divestment will be conditional upon compliance with the covenants included in the aforementioned Shareholders Agreement.

3.- COMPANY BUSINESS AND INVESTMENT OPPORTUNITY DESCRIPTION

The Company, founded in July 2020, has positioned itself as a leader in the tokenization sector, innovating for its clients in 5 countries in Europe and Latin America, to whom it offers advice, technological infrastructure and regulatory coverage so that they can tokenize, manage and trade their tokens.

The Company has been awarded the 2023 XXI Century National Technology Award 2023 in the Blockchain category, a distinction that recognizes the Company's innovation and leadership in the advanced application of Blockchain technology. It has been recognized among the top 50 startups by 4YFN, selected by Forbes Spain among the 22 most influential ideas, named one of the five most promising companies created in Spain in 2020 by Finnovating and highlighted as one of the most innovative startups by Entrepreneurship World Cup, AIBC Malta and Molo9.

A presentation of the business and the plan in place for the funds received from investors is attached hereto as **Exhibit II ("Investor Deck")**.

4.- TCS (TOKEN CITY SHARES) TOKEN ISSUANCE

4.1. General information

As indicated in the Executive Summary, an Extraordinary General Meeting of Shareholders will be held to approve the issuance of a share token to the Company's shareholders.

The denomination of the Tokens to be issued is TCS - Token City Shares and they will be created under the ERC-20 standard on the POLYGON PoS blockchain. The maximum issue of tokens will be the total number of the Company's shares, i.e. the current shares plus those to be newly created as a result of the planned capital increase in the Company for the European Project, with a maturity linked to the existence of the Company's equity share.

4.2. Amount of tokens received by shareholders

The Company shall deliver to the Shareholders one (1) TCS token for each share in the Company.

4.3. Rights associated with the token, transferability and legal basis

Blockchain technology in general, and the Polygon PoS blockchain in particular, allow for the creation and distribution of digital tokens, programmed through Smart Contracts.

Depending on the characteristics and properties attributed to these tokens, they are subject to different technical and legal processing.

In the case at hand, the tokens represent specific corporate rights inherent to the status of shareholder, as well as other rights attributed to the shareholders by the Company (hereinafter, the "**Tokenized Rights**"). The purpose of the TCS tokens is to facilitate the exercise of such rights by the shareholders in an agile and secure manner.

The Tokenized Rights are the following:

- Shareholder right to information.
- Shareholder right to sell their shares on the Marketplace enabled by the Company for this purpose.

- Shareholder right to make purchase offers of shares on the previously indicated Marketplace.
- Shareholder right to formalize private contracts to sell their shares, respecting the transfer limitations set in the Shareholder Agreement, the Capital Companies Law, and the Bylaws.
- Shareholder right to participate in the Company's innovation processes.
- Shareholder right to participate in free events organized by the Company.
- Shareholder right to obtain a discount on the products and services offered by the Company.

It must be taken into account that TCS tokens are unequivocally linked to the shares. Therefore, they will only be transferable when the shares to which they are associated are also transferred together. Likewise, any transfer of shares in the Company must be accompanied by the transfer of TCS tokens. Otherwise, the Company shall burn the TCS tokens whose ownership is not linked to the members of the Company in the proportion in which they participate in the share capital, and replace them with new tokens which shall be sent to their legitimate holders.

For the transfer of TCS tokens to be binding on the Company, it must be done through the platform provided by the Company for this purpose, on its own platform www.token-city.com. Investors must use the agreement for the joint transfer of TCS tokens and shares, which will be available on the aforementioned platform. During the registration process on www.token-city.com by the recipients of the TCS tokens, they must (i) pass a personal identification process, (ii) validate the Wallet where the TCS Tokens will be delivered, (iii) accept the Company's General Terms and Conditions and (iv) create an account with the payment service provider, which will be the channel through which the payments in fiat currency will be made.

In order to record and monitor the holders of issued tokens and the amount of tokens they hold, a **whitelist** system will be implemented. Consequently, only those wallet addresses that have been approved by the Company in such whitelist will be able to send or receive TCS tokens. In this way, the Company will be able, at all times, to have a real time record of who the holders of TCS tokens are and what the balance of each one of them is, resulting in a TCS Token Holder Registry.

It is hereby explicitly stated that TCS tokens, due to their specific legal configuration and transmission regime, are not susceptible to generalized and impersonal trade in a financial market. TCS Tokens are not tradable in regulated markets, Multilateral Trading Systems or Spanish Organized Trading Systems.

4.4. Token storage and monitoring

For the proper storage and control of the tokens by the investors, they will have to provide the Company with a wallet address whose private key is in their possession and is compatible with the blockchain used for the token issuance. Alternatively, investors who do not have a wallet may delegate the custody of their private keys to the Company. In any case, such tokens will always be available to the investor and will be forwarded to the wallet address indicated by the investor upon request.

In case of loss or misplacement of the Wallet's private key by any investor, the Smart Contracts governing the TCS Token will permanently block the tokens held at that address and create and issue new tokens to a new address provided by that investor.

In the event that the Company needs to update the technical characteristics of the software protocols or any technological problem occurs, either in the blockchain or in the Smart Contract, the Company reserves the possibility of permanently blocking all of the investors' tokens. In such case, the Company will notify the investors of this situation, who will have two options: 1) receiving new tokens, which will be sent to the investor or held in custody by the Company; 2) proceeding to the de-tokenization of the Tokenized Rights.

5.- TAXATION

5.1 The Company

If applicable, the Company will proceed to make the corresponding tax withholdings in accordance with current Spanish accounting regulations.

5.2 The Investor

The Investor shall be responsible for reporting the taxes resulting from the Investment or from returns received by the Company.

6.- INVESTMENT RISK FACTORS

Potential investors should completely and carefully read the following risk factors associated with this Investment, so that, together with the rest of the information contained in this document, they can make an informed decision as to whether they wish to be part of the Project, and therefore proceed to invest.

The information provided to prospective investors herein is not a substitute for any financial or investment advice that may be offered or required to be given by external professional advisors independent of the Company to prospective investors. Likewise, the information provided herein does not validate or substitute for the evaluation of the needs, objectives, experience, knowledge and personal economic circumstances of the potential investor to make an appropriate decision to invest in the Project.

In the following sections, potential investors are informed of the risks associated with their participation in the Project, taking into account the financial, legal and technological aspects inherent to the business model proposed by the Company, as well as the operation of the tokenization of the Tokenized Rights.

The Company's objective is to implement organizational and technological measures in order to mitigate the risks associated with the proposed business model, as well as the technological infrastructure used for token issuance. Regardless of the risk mitigation measures to be implemented, it is possible that the materialization of any of the risks detailed below may cause adverse effects for potential investors. Therefore, it is possible that the Company may

not be able to fully or partially comply with its obligations under this document, as well as under the Investment Agreement or the Participation Account Contract, and the potential investor may lose the totality of their investment, as previously indicated.

6.1 Risk of not realizing the expected return

The information contained in this informational document and its Annexes related to the investment opportunity, the financial forecasts and the economic evolution of the Company have been projected on the basis of current data. The Company's economic projections are based on experience and analysis, which lead to economic forecasts that the Company believes to be reasonable. These forecasts may change substantially as a result of future events or new information leading to the possible loss of investments.

Therefore, potential investors may not obtain the expected return, since this depends on the success of the Company, and may even lose all or part of their investment. On the other hand, potential investors may not receive dividends, since the Company may decide to reinvest the profits obtained.

6.2 Dilution risk and limitations to influence the management of the Company

The investors' percentage interest in the Company could be reduced by the addition of new partners to the capital, which is known as dilution.

In addition, the interests acquired by potential investors may be subject to limitations on their ability to influence the management of the Company.

6.3 Investment and token illiquidity

Investments in shares of limited liability companies are by nature highly illiquid. The transferability of the shares is conditioned by the provisions of the Bylaws, the Shareholders Agreement and the law.

The purpose of the tokenization of the Tokenized Rights is to facilitate the participation of the shareholders in the life of the Company and to expedite the exercise of their rights as shareholders of the Company, including the right to sell their shares, thus seeking to promote the liquidity of the investments. In any case, the liquidity of the TCS token, as well as the potential economic return of the partners, will depend on the transfer of the share to which the TCS token will be associated.

6.4 Risks associated with the Blockchain technology used to issue TCS tokens

Blockchain-based technological systems are very new and are in continuous evolution. In this regard, there is a risk of malfunction, malfunctions or the permanent termination of the use of such technology, which would affect the digital representation and possible transmission of TCS tokens.

Therefore, the Company cannot ensure that the issuance of TCS tokens and their subsequent transmission together with the equity interest may be interrupted or otherwise suffer from errors, so there is an inherent risk of defects, failures and vulnerabilities that may result in the loss of TCS tokens.

Notwithstanding the cybersecurity measures adopted by distributed log technologies, there is a risk associated with possible attacks of technological origin. The result of such attacks, which is beyond the Company's control may also lead to defects, flaws and vulnerabilities that may result in the loss of TCS tokens.

The investor acknowledges, understands and accepts that there is a risk associated with the loss or theft of the private keys associated with the Wallets, which would result in control over the TCS tokens.

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Last updated in July 14, 2023