

Draft

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

Latest Update: December 14, 2020

General Purpose: Describe the “tokenomics” surrounding the eRSDL token.

Specific Purpose: We know it can be difficult to read, retain and process multiple sources of information; especially when that information may not be publicly available through our corporate workpapers, social media handles or websites. Market participants expect to understand the uses, rights, privileges (if applicable), and other possible factors which may impact the price of the token over time.

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Current State of the Business (12/14/20):

The eRSDL token is conceived as an exchangeable element within a multi-token system used to create debt instruments. The whitepaper accompanying this litepaper describes the other tokens in more detail. The eRSDL token is the only token of the ones described in the whitepaper to be broadly distributed, while the other tokens exist to immutably capture data necessary to perfect the debt.

The eRSDL token 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 memo, 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, which is inherent in the protocol, is meant to incentivize the building of a *liquidity pool*, which is a foundational element of our payment latency protection platform.

It is our belief that as institutional money enters the pool, the need to incentivize will abate. This has been the plan all along, and remains so for the foreseeable future.

Setting a Max Cap

Were we 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 post more liquidity, but 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 transactions related to the Project). We are balancing that activity with the need to pay operational, development and legal expenses. Given our desire not to disrupt pricing with these transactions, we expect it will take time

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to build sufficient liquidity.

We are in discussions with certain high net worth individuals regarding the sale of tokens directly to help us increase the liquidity pool. We welcome community feedback on accelerating the sale of eRSDL to stake and lock liquidity, as 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 assume around 400 million tokens as the maximum cap, where 500 million eRSDL tokens would be the most generated. A number of variables could result in us revisiting these estimates.

Other Options

We have considered following the SushiSwap(R) model in estimating a maximum cap. Installing its features may solve the perception gap for some, but could expose us to business risk down the line. We welcome your feedback once we begin to work through a more detailed MaxCap plan. See link below:

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

We have also setup a Snapshot for this and other information:

<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 given per block which cannot be changed by the team, as we are not owners of the contract. Only MasterUnChairman , who owns the contract, can do so.

This is verified on Etherscan (see links below) and has always been linked on our staking site, showing that we cannot mint new tokens ourselves. This information will remain publicly available in perpetuity:

<https://etherscan.io/address/0x5218e472cfcfe0b64a064f055b43b4cdc9efd3a6>

<https://etherscan.io/address/0xF8377270af0c864d2b3BAB73BB16c65b05767549#code>

Tokenomics Background:

The eRSDL token is a [utility token](#). This kind of 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 token holders

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specific privileges; namely in conjunction with onboarding procedures for the specific product. The Minimum also 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 who wish to qualify as Makers and Takers (“Participants”).

Feature	Basic	Premier	Elite
Available News, Updates, Articles	X	X	X
Open Forum Discussions	X	X	X
Access to Manuals, Policy and Procedure Guides	X	X	X
Source Code for Base Model	X	X	X
Access to Flowcharts, Presentations, etc.		X	X
Loan Performance Dashboard Information*		X	X
Lending Demographic Data		X	X
On-chain Governance	X	X	X
Voting Rights	X	X	X
Potential Committee Appointments		X	X
Treasury Toolkit®			X

PLEASE NOTE: Participants need to aggregate the Minimum in order to access the Treasurer 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 its protocols, is comprised 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 eventually operate autonomously. If the products created by Participants and those using the basic toolkit are good loans, then the ecosystem will thrive. Competitiveness as it relates to servicing, marketing, custody/title, and collateral disposition will only 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.

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

- The number of potential system Participants is unknown.
- The early number of Participants is probably four or five.
- Initially, we will have one service level (binary: [e.g. you either have (X or more) or you have less than X]).
- Entrants may come in at any time, but depending on the manner in which they enter the system, token holders may be subject to lock-up periods.
- Exiters may exit at any time.
- Tokens will not be created and destroyed once minted unless decided upon by community vote.

The protocols governing access use the following information in verifying a Participant and a service level:

- Amount of tokens held by a Participant.
- Purchase timing and average price paid by the Participant for his or her tokens.
- Current Market Value of the Participant's tokens.
- The price paid by the last verified Participant (indicated by a separate token type provided by Residual).
- Number of Participants (using our token).
- All the above factors (e.g. timing, cost basis, fmv, quantity).
- Total minted tokens.
- Total available to be minted tokens.
- Current required Member Level license fee token equivalent.

The 3 Key Features of the eRSDL Token:

Three issues considered here include:

- I. The Member Level license fee
- II. Voting rights; and,
- III. The Rebate.

I. The Member Level license fee

There are three levels: Basic, Premier and Elite

Only Elite members can make or take loans. The licensing fee of the Member Level would consider the following:

1. Develop an OR-based requirement for the business. Member Level license fee 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., $X = Y\% * \text{Total number of tokens minted}$).

Residual Token, Inc. – DRAFT FOR DISCUSSION PURPOSES ONLY

2. Management or token holders, subject to the 10% referendum threshold in a manner consistent with the one described in the Voting Rights section below, may put forth a vote for a new license fee if:
 - a. Token holders elect to change the Member Level license fee.
 - b. Presumably, $\text{New X} = \text{New Y\%} * \text{total number of tokens outstanding}$, but this is not a requirement.
 - c. Changes will go into effect a minimum of two days after the change is approved or on a date selected by the token holders not to be less than two days or greater than 120 days.
3. Selected Member Level fee options and voting rights 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 may be required to elect to lock their tokens for a period of [X]-years to vote; where [X] is determined by Residual Token, Inc. management dependent on the vote topic.
 - b. One token, one vote.
 - c. For certain votes, any tokens held by Residual Token, Inc. are considered abstentions and not factored in the totals counted; and,
 - d. Token holders will generally be able to vote on issues. For instance, under varying circumstances or through aggregation of enough tokens to float a referendum, token holders may elect¹:
 - i. Members of the board of directors,
 - ii. Changes to the Minimum,
 - iii. The onboarding of a new Participant; 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.

The right to participate in a portion of the governance in and of itself provides value for token holders. We have monitored other decentralized channels and observed how those communities have encouraged participation. In the case of Residual, as of this writing, based on our community's feedback, we have already had a vote on our logo, generated but not passed referendums, and designed the platform's first features (e.g., web design).

III. The Rebate

A major benefit of using the eRSDL platform is the Participant's ability to earn back a full rebate of the

¹ 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.

Residual Token, Inc. – DRAFT FOR DISCUSSION PURPOSES ONLY

upfront licensing fee. A small portion of every trade on the platform earns a fee. To incentivize Participants to be Makers and Takers, we will rebate all Participants any amount up to their original cost to aggregate qualifying amounts of eRSDL. These distributions will be calculated from year-end earnings and made in a one-time fashion, barring any specificity in the agreement to the contrary (e.g. termination, liquidation, change in control.)

As it relates to the eRSDL price, there are many contributing factors to its risk and value. Below is an example of platform cash flows and how it might relate to the value of the token. **These are forward-looking statements and are uncertain. We make no representations in presenting the following:**

	Projected (in Millions)						Term
	Year 1	Year 2	Year 3	Year 4	Year 5		
Outstanding available Lines of Credit	\$ 20,000	\$ 80,000	\$ 160,000	\$ 240,000	\$ 300,000		
Growth Rate (1)		300.0%	100.0%	50.0%	25.0%		
Percentage Borrowed (1)	50.0%	50.0%	50.0%	50.0%	50.0%		
Total Amount Borrowed	\$ 10,000	\$ 40,000	\$ 80,000	\$ 120,000	\$ 150,000		
Usage Fee in bps (2)	12.5	12.5	12.5	12.5	12.5		
Total Usage Fees Revenue	\$ 12.5	\$ 50.0	\$ 100.0	\$ 150.0	\$ 187.5		
EBITDA Margin (%)	20.0%	20.0%	20.0%	20.0%	20.0%		growth
EBITDA (EST)	\$ 2.5	\$ 10.0	\$ 20.0	\$ 30.0	\$ 37.5	\$ 37.5	3.00%
Platform Participants	5	25	100	500	1,000		
License Fee Per Token (Est. 400mn)	\$ (0.0)	\$ (0.0)	\$ (0.0)	\$ (0.1)	\$ (0.2)		
Cum. Participant Net Earnings per Token	\$ 0.1	\$ 0.3	\$ 0.5	\$ 0.8	\$ 0.9		
Net benefit	\$ 0.1	\$ 0.2	\$ 0.5	\$ 0.7	\$ 0.8	\$ 2.0	
Discount Rate	40%						
NPV	\$0.92						

Footnotes

(1) Each Participant on average expected to have anywhere from \$50mn to \$200mn in daily cash excesses/deficiencies

(2) Assuming no more than an 1/8th spread between makers and takers on the platform

(3) Qualified holders will receive a rebate of their original eRSDL purchase cost. Certain conditions apply.

A Token Price Example

The value of finite blockchain assets, referred to as digital assets, tokens or crypto assets, is highly uncertain and dependent on both observable and unobservable factors. Attempts to quantify the basis for the value of numerous tokens are publicly available, and are generally based on combinations of existing economic theory and conjecture. Our calculations above, **do not** constitute a formal opinion of value; rather, they are calculations of factors which may influence the eventual observed price for Residual's eRSDL token.

An Analogy

Think of the eRSDL Member Level license fee as analogous to a taxi-cab medallion or other type of Certificate of Public Necessity (CPN). In order for a Participant to operate the Treasurer 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. Similarly,

Residual Token, Inc. – DRAFT FOR DISCUSSION PURPOSES ONLY

Participants wishing to use the platform must obtain permission from Management (or, in certain cases, other token holders as described in the Voting section above). The combination of this permission plus the Minimum will allow the Participant 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 exist 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 Participants, the Minimum, and the supply of eRSDL.

Our analysis only considers Participants' performance, *not* the performance of non-Participants using open source versions of the platform for their own purposes. Our loan production and annual Participant count assumptions are based on Residual's current pro forma estimates. There is great uncertainty in the business model as of the date of this memo.

That uncertainty is applied to the cash flows in the form of a discount rate, which likely accounts for the 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 a 40% discount rate to eRSDL-related cash flows. If we were to close our projection window at five years, the present value of proceeds directly attributable to the eRSDL token would be approximately \$0.92/token.

From our perspective, what is most interesting around this result is eRSDL's consistency with the costs of other enterprise software solutions. As an example, consider 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 its product technology software may easily run in this price range.

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 if Residual is unable to deliver a platform consistent with market expectations, the value of the token could be \$0. However, should non-Participant or Participant demand exceed expectations, then the approximate 400,000,000 tokens originally contemplated will be absorbed by this population and cause the perceived value of the token to rise.

Economic Theory

According to Melcalfe's Law,

$$n \times (n-1) = n^2 - n.$$

The value of the network goes up as the square of the number of users increases. This is an indication or rule of thumb as opposed to a law. If 10 people use a network, its value is 100, but if 100 people use the

Residual Token, Inc. – DRAFT FOR DISCUSSION PURPOSES ONLY

system then its value will be 10,000. In the case of Residual, we would consider the number of Participants on the ecosystem as the true driver of value for the eRSDL token.

In reflecting on our forecast, we note that in the years before the Minimum is decreased the return per token increases significantly. Coupled with reduced risk resulting from a vetted system, a warmer marketplace, and additional digital assets available as collateral, price per token could be dramatically increased. It is not the intention of Residual to focus on the absolute value of the eRSDL token; rather, it is to provide robust protocols and support the participation of as many Participants as possible in consideration of the limited number of tokens minted.

In their paper, “How Value is Created in Tokenized Assets,²” the authors, Hargrave, Sahdev and Feldmeier, describe how wide knowledge of a subject increases its value. However, it doesn’t mean that the *system* understands what makes the subject interesting or valuable.

One could foresee similar circumstances here as the Founders attend and speak at numerous conferences, publish papers and work to onboard additional Participants. 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 idea’s position relative to the comparable set. In this case, the authors used a series of questions and answers for 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.

² 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>

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- User Adoption: (score: 4.5). Participant 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 is “vanilla” relative to many consumer lending options. Borrowers have already shown interest. In fact, our loan application screen produced 20 borrower applications in the first two weeks with a single Facebook advertisement.

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