

Memo from Nebulous regarding Siacoin

June 5, 2018

Exchange Requirement : A letter or memorandum prepared by Company's U.S. counsel, or by Company in consultation with Company's U.S. counsel, that presents the factual and legal basis for its conclusion that: (a) the Candidate Token is not a security under applicable federal or state securities laws, and (b) that trades of the Candidate Tokens would not be subject to regulation under any Applicable Laws applicable to trading of commodities. The letter or memorandum must consider all material facts and the relevance of applicable case law, any SEC or CFTC enforcement actions, reports, guidance and public statements relating to sales and trading of cryptotokens and cryptocurrency up to the date of the application (including consideration of the Howey and Reves tests and other applicable case law and factors addressed in the SEC's The DAO report and Munchee Inc. Cease and Desist Order). Forms that purport to be a template Securities Law Framework will not be accepted as a substitute for the analysis required by this paragraph.

Note to exchange: *Nebulous, the company that employs Sia's core developers, has raised just over \$3 million total since its formation in 2014. We believe that the Siacoin's regulatory status is very clear, and therefore are preparing this brief letter without legal counsel. Due to our unusual situation, where we hold only 0.0035% of the total Siacoin supply, we ask that you accept this letter without the involvement of external counsel.*

The Sia network uses two tokens: Siacoin and Siafunds. We believe that Siafunds, which are not listed on any major exchange, **are** securities. We believe that Siacoin, which are widely traded on major cryptocurrency exchanges like Bittrex, Poloniex, and Upbit, are **not** securities.

Siafunds

The Sia project formally began with a 2014 token sale for an asset called Sianotes. Nebulous sold 1,250 Sianotes in exchange for approximately \$100,000 worth of Bitcoin. When the Sia network launched in 2015, these Sianotes were converted into Siafunds.

Siafunds are a revenue-sharing token. Each time users form file contracts on the Sia network, a 3.9% transaction fee is distributed to the Siafunds. This means that the revenue produced per-Siafund increases proportionally with storage spending on the network.

We believe that Siafunds are securities for the following reasons:

- Siafunds were sold to investors in multiple token sales (2014 and 2018)

- In the 2018 Siafund sale, Nebulous filed with the SEC via Regulation D
- Investors in Siafunds have a strong expectation of profit
- Nebulous holds 85% of all Siafunds
- Nebulous, as a company, is directly receiving the proceeds of each token sale of Siafunds, and using those funds towards development and promotion of Sia

Part 2: Siacoin

Siacoin is used for buying and selling storage space on the Sia network. It is mined via proof-of-work. We believe that Siacoin is a pure utility token.

Siacoin was released in a manner similar to Bitcoin, in a fair-mining process. When the Sia network went live in 2015, the Nebulous team mined the first 100 blocks. At a current block height of 152830, this is 0.065% of all blocks – which we therefore believe does not constitute a premine. The Siacoin mined from the first 100 blocks have since been lost.

As mentioned in the introduction, Nebulous currently holds only 0.0035% of the total Siacoin supply. We have never used Siacoin for fundraising purposes, have never paid an exchange listing fee, and do not directly benefit from Siacoin's price increase.

This is in direct contrast to the vast majority of cryptocurrency projects, which hold large percentages of their respective tokens.

We believe that Siacoin is not a security for the following reasons:

- Siacoin was released via fair-mining, without a premine
- Nebulous has never offered Siacoin to investors in any kind of token sale
- Nebulous holds a miniscule amount of Siacoin – only 0.0035%
- When users buy Siacoin, their funds do not go to any common enterprise. The Nebulous team receives absolutely no direct financial benefit.

Part 3: Conclusion

We believe the above points demonstrate that Siafunds are securities while Siacoin are not securities. Our situation is more clear, as we have separated the security token (Siafunds) from the utility token (Siacoin).

Please let us know if you have further questions. We certify that the above statements are factually correct.

Best,

A handwritten signature in blue ink, appearing to be 'Zachary Herbert', written in a cursive style.

Zachary Herbert
Vice President of Operations
Nebulous, Inc.