

# The Aziza Coin

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(Issued by the Aziza Project LLC, a digital autonomous organisation)

("Aziza Coin", or "The Coin")



**A Digital Currency Restricted Sales Offer Memorandum**

Tax Year 2020 - 2021

To enable existing coin holders to realise and reinvest capital gains on up to 5,000,000,000 Aziza Coins to investee companies prior to the Aziza Coin Initial Coin Offering in 2023.

Managed and administered by





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## Aziza Coin

("the Aziza Project LLC as administered by Alumni Risk Solutions [Pty] Ltd  
Reg No: 2015/019189/07")

### Restricted Sales Offer Memorandum

The definitions and interpretations commencing on page 6 of this document apply to this entire document, except where the context indicates a contrary intention.

This Restricted Sales Offer Memorandum relates to an offer made by the Aziza Project LLC, subject to certain conditions, to selected persons who fall within one of the specified categories listed in section 96(1) (a) and (b) of the Companies Act. The above-mentioned persons will be capable of acceptance, where the offeree will be offered a consideration for coins within a restrictive and non-binding set of circumstances based on a pre-determined formula. Consequently, this Restricted Sales Offer Memorandum is not an offer, or an invitation or solicitation of an offer, to the public to subscribe for, or otherwise acquire, any financial security in any jurisdiction. The coin, which was issued on 28 January 2014, can only be sold by wallet holders to a restricted list of companies at a pre-determined price defined in this document.

The Coin Administrator has sought advice from SARS as to the treatment of gains resulting from the proceeds of the realisation of coin. SARS has informed the Coin Administrator that should a taxpayer be resident in South Africa and that their intention is to invest proceeds into other illiquid investments such as Venture Capital Companies, the gain shall be treated as capital in nature. The Coin Administrator has indicated to SARS that any person, receiving a consideration for the coin in fiat currency will be subject to FAIS compliance and the Coin Administrator will issue an IT3(c) Form informing SARS of the gain.

The objective of the Aziza Coin was to foster a favourable environment for entrepreneurship within South Africa, when it issued the first 500,000,000 coins in 2014. The coin was untradeable due to technology constraints until the launch date of this document and will only be saleable to a restricted number of investee companies in the United Kingdom. Sellers are encouraged, but not obliged, to reinvest their gains into Venture Capital Companies, that the coin will support, with its proceeds from the Initial Coin Offering planned for 2018.





This Restricted Sales Offer Memorandum does not, nor does it intend to, constitute a “registered prospectus”, as contemplated by the Companies Act. No prospectus has been filed with the South African Companies and Intellectual Property Commission in respect of this offer.

The Aziza Coin is not a financial instrument as it is yet unregulated. If you are in any doubt about the contents of this document, you should consult with your own independent legal, tax, accounting, investment or other relevant advisor when contemplating any investment decisions described in this document. This document has been compiled from information supplied by the Coin Foundation.

The information contained herein has been prepared to assist in forming an initial view of the Offer. The document does not purport to contain all the information that an investor may require, nor is it intended to replace any form of legal, financial or technical due diligence. The content hereof may not be utilised and/ or relied upon for any purpose other than to evaluate whether you wish to participate in the Offer.

While every effort has been made to ensure the accuracy of the information provided herein, this document and the information contained herein has not been independently verified, nor does the Coin Foundation give any representation, warranty or guarantee, whether express or implied, in relation to the accuracy of the information. Accordingly, no Wallet Holder shall have any claim of any nature whatsoever against the Coin Administrator arising from the information herein contained.

### **Disclaimer**

The contents of this Restricted Sales Offer Memorandum do not constitute and should not be construed as investment, tax, legal, accounting and/ or other advice. For advice on these matters we recommend that you should consult your preferred investment, tax, legal, accounting and/ or other advisor about any information contained in this Document.

Digital coins are speculative by their very nature and prospective subscribers should refer to the risk section of this Restricted Sales Offer Memorandum concerning the potential risks.

### **Date of issue: 12 October 2020**

This Restricted Sales Offer Memorandum is only available in English. Copies of this Restricted Sales Offer Memorandum may be obtained during normal business hours from the registered office of the Company set out in the “Corporate Information and Advisors” section of this Restricted Sales Offer Memorandum from the date of issue hereof until 5 April 2021.



# 1. Synopsis

## The market opportunity the Aziza Coin addresses

The Aziza Coin is a digital coin designed to support start-ups thereby making them more attractive to angel investors. The Aziza Project LLC plans to use a combination of lower administrative fees, economies of scale and a smart contract-embedded support ecosystem, that materially increases the probability of start-up success. Success will result in coin holders benefiting from superior risk-adjusted returns through higher profits and a lower risk of failure. Profits from centralised support contracts will augment returns.

## Aziza Coin's three key unique selling points

Three of the unique selling points are listed below:

### **It is the world's first ethically tax advantaged digital currency:**

Aziza Coin is the first digital currency project in the world, designed to encourage tax subsidised angel investment. Using Section 12J Venture Capital Companies ("VCC") in South Africa, which offers generous tax subsidies, the coin facilitates tax authorities' support for entrepreneurship. The South African Revenue Service (SARS) has accepted Aziza Coin's model where every R1 of tax breaks will create over R4.00 of increased tax revenues for SARS.

**It enables VCCs to accept cryptocurrency,** enabling investors to the VCCs to convert their cryptocurrency profits into generous tax breaks as SARS rewards them for their support of VCCs.

Similarly, using the Enterprise Investment Scheme in the UK facilitates support of entrepreneurship and subsidised investment through generous tax subsidies.

The Aziza Coin enables companies in which it invests to benefit from the UK's HMRC **Research and development tax credits** when providing innovation research services between Aziz companies. This, in turn, offers augmented fundraising for Aziza Coin companies and a faster route to profitability. Hence, offering investors in the UK and South Africa more favourable risk-reward profile.

**A Four Pillar Investment Approach** will identify ultra-high potential opportunities, improving risk adjusted returns with its:

- Superior management teams
- local community participation and government support
- competitive advantage from proprietary intellectual property
- return ratios improved by tax credits, grants and tenders



## History

After the Aziza Coin's offline issuance in 2014, development of the Aziza software started in 2017 when the Ethereum platform (a more sophisticated version of Bitcoin) made such smart contracts possible. This entrepreneurship support concept was pitched to the co-founders of an oil exploration company, Africa New Energies ("ANE"). ANE's founders committed 20% of its own shares to the Aziza Project LLC in return for 1,000,000,000 Aziza Coins (20% of coins in issue). ANE's value is derived from an algorithm that could triple the probability of success of drilling for hydrocarbons at 1/10th of the cost of traditional methods and is easily replicated. The extent of ANE's worth became apparent when it received and rejected an unsolicited bid for its Namibian blocks valuing it at \$500 million. This 20% stake therefore contributes €85 million or € 0.00017 per coin to Aziza Coin's net asset value. The next step in Aziza Coin's evolution happened when the coin's first Section 12J VCC was approved by the South African Financial Services Board (FSB) and SARS in August 2017, enabling the First Closed Trading Period to commence.

## Rollout plans and coin workings

The 5 billion Aziza Coins that will be in existence at the Initial Coin Offering (ICO) stage, were issued offline between 2014 and 2017 for no consideration.

In the First Closed Trading Period between October 2017 and April 2018, it was not possible to buy Aziza Coins, as coins were re-allocated by the Foundation to approved applicants on a use-it-or-lose-it basis. The only buyers approved to buy the coin, were the supported start-up companies who had the option to buy up to 85% of the coins in any given wallet. The purchase took place in weekly allocated slots, where the option price increased exponentially: In week 1 the option price was €0.00001 increasing to €0.00030 by week 26. Applicants who succeeded in selling coins to supported investee companies, retained 15% of their allotment. Subscribers who failed to find an investee company buyer, forfeited their holdings.

An ICO is planned for 2023, where the coins purchased by the investee companies will be replaced on a one-to-one basis with new coins that will be available to the public. The Aziza Project LLC will deploy these proceeds to provide the central services package to the selected investee companies in return for up to 20% of their shares which are allocated to the Aziza Project LLC. Post ICO – the Aziza Coin will be tradeable on exchanges acceptable to regulators, and coin holders will derive value from:



- A diversified portfolio of high potential start-up shares, spanning hospitality, retail, technology, mining, oil & gas and solar.
- The central services revenues, where a return on total investee company assets are modelled to double internal rates of return.
- In specie dividends giving long-term coin holders access to prestige assets such as hotel rooms and private aircraft at close to zero cost.

Future coin issuance is possible providing there is sufficient demand and the value per coin is not diminished.

## Aziza Coin investee companies

The portfolio of Aziza Coin start-ups is focused on high risk, high-impact companies. These are companies that have the potential to significantly contribute to GDP and job creation.

The Aziza Foundation provides access, through the Aziza Coin, to fast growing energy, telecoms and aviation sectors.

The intent is to create symbiotic research and operational innovation across all Aziza Coin enabled companies. Across Africa, with her enormously sparse spatial layout, the need for communications (telecoms), movement and surveying (aviation), and production (energy) is vast. Aziza Coin companies plan to leverage the relationships within its ecosystem first through the above and then to solve Africa's challenges thereafter.

### Energy-related companies in the portfolio:

The Aziza coin holds 20% of UK oil and gas exploration company, Africa New Energies as well as six natural gas and oil exploration companies that fall within the borders of South Africa. The latter seek the explicit goal of creating low-cost, lower carbon alternatives to coal and nuclear within the SADC electricity feedstock portfolio.

A key element of the Aziza Project proposition is the oil and gas exploration company Africa New Energies Ltd, a company registered in England and Wales. An electronic data room has been prepared containing due diligence materials that potential investors are encouraged to review. This data room is accessible via the Africa New Energies website [www.ane.na](http://www.ane.na) via a menu option on the home page.

The Directors of Africa New Energies Ltd (ANE) originally went to Namibia to advise the Namibian government on solar. From the conclusion of this project they started an oil and gas exploration



business and applied for a 22,000km<sup>2</sup> concession on the Eastern Namibia border with Botswana.

From the outset the Directors actively engaged with local communities and made them shareholders in the business, unlocking a wave of goodwill. The concession application was successful and in June 2013 the business formally took ownership of Petroleum Exploration Licence 68.

The subsequent five years have involved cycles of fund-raising and exploration. The initial remote satellite sensing carried out by Scotforth Ltd, who claim a 76% success rate, identified 32 anomalies including 7 high quality anomalies that are estimated to contain 1,630MM BOE.

The biggest anomaly nicknamed "The Giant", sits above a basaltic overlay. This unfavourable geology limits the effectiveness of traditional seismic surveys in an area where the deep sand of the Kalahari makes gathering seismic data challenging. So ANE have based their approach to exploration on the evidence that hydrocarbon leakage or micro-seepage can have on the environment and to use alternative methods to determine information on the shape of the hydrocarbon trap or structure. There is a growing scientific catalogue of evidence of the success of these types of investigation from renowned industry experts such as Peter Hutchinson, Dietmar Schumacher and Leonard LeShack.

Fundraising and exploration continued during the period 2014 to 2016 with radiometric analysis, geochemical soil sampling and the interpretation of aeromagnetic data.

In the same period the founders were able to undertake substantial research into hydrocarbon discoveries around the world and created a 17-layer algorithm that uses a series of non-conventional exploration techniques to predict the likely location of hydrocarbons.

In 2017 ANE received an unsolicited bid valuing the company at \$500 million from a US private equity company representing a buyer from East Asia.

Whilst an exciting proposition the founders felt the bid was too low and they could create more value in developing the business themselves. In addition, after years of building relationships with the communities living on the concession the Directors also had concerns about the approach the potential buyer would take from a social and environmental perspective.



## Six onshore South African exploration concessions

These concession companies were awarded Technical Cooperation Permits (“TCPs”) in October 2018, which gives the companies the exclusive right to apply for exploration rights spanning a cumulative area of 3 million hectares – an area almost twice the size of Gauteng. The use of Africa New Energies exploration method creates a unique hydrocarbon opportunity that has the potential to have a transformational impact in South Africa.

The six South African companies, in which the Aziza Coin has a stake, are listed below with their size in km<sup>2</sup>:

Company Table head	Ares (km <sup>2</sup> )
Upington Exploration Services (Pty) Ltd	719
Vloosdrif Prospecting (Pty) Ltd	1,638
Phalane Prospecting (Pty) Ltd	3,160
ORM Exploration (Pty) Ltd	3,514
Reconnoitre Northern Cape (Pty) Ltd	6,907
Ganyesa Exploration Services (Pty) Ltd	14,194

## Telecoms companies

AfriCanopy (Pty) Ltd is a majority black-owned company incorporated in South Africa in 2017. It uses Television White Space (TVWS) devices to provide long-distance connectivity, together with Mesh Wi-Fi networks for local connectivity. This is intended to provide low-cost but high-performance broadband and voice access to rural, peri-urban dwelling South Africans that have previously been excluded from the digital age.

AfriCanopy is currently undertaking a 14-month Trial Project.

- To provide low-cost high-speed Internet access to as many as 85,000 people living in the rural parts of the King Cetshwayo District Municipality.
- To provide free Internet access to around 50 schools located in the rural parts of the King Cetshwayo District Municipality.
- To create income earning opportunities for around 400 community members living within the King Cetshwayo District Municipality; and
- To test and demonstrate the large-scale technical and commercial viability of TVWS technology in providing broadband connectivity in rural areas.



AfriCanopy's solution for providing rural connectivity rests on several pillars:

- Large scale usage of third generation TVWS equipment. This equipment is an order of magnitude more capable than any TVWS equipment previously deployed in Africa. It provides for increased range, higher speeds, and granular controllability of the network. As this equipment has not been used in South Africa before, this will also be a Technical Trial. Provisional Type Approval has been obtained. During the Trial, full Type Approval will be obtained for the equipment, making it easier for others to use this same equipment in RSA.
- Rapidly deployable masts. These locally designed masts exceed the performance of any equivalent masts currently available. No foundation or footing is required, and the equipment on the masts is self-powered, so no grid connection is required.
- The innovative marriage of TVWS technology with Wi-Fi Mesh devices increases the flexibility of the network giving low cost coverage of an area such as a group of villages, as well as allowing for coverage in places where the TVWS signal can't reach, due to the hilly nature of the terrain in the King Cetshwayo District.

Milestones to date:

1. Class electronic communications network service licenses granted and awarded to Africanopy including:
  - 10 For the provision of network services
  - 10 For the provision of electronic communications services
  - SANRAL approval granted
2. Preliminary testing undertaken
3. Research and development services provided to international client across 7 projects
4. Hardware importation; pre-deployment hardware assembly and testing; Technical Solution integration for payment, billing, monitoring.
5. Tower sourcing and procurement
6. Engagement with landowners and municipality for tower locations
7. Engagement with 3rd party infrastructure providers



## Empowerment

The true empowerment value in AfriCanopy's project lies in AfriCanopy's commercial solution. AfriCanopy plans to create 100 Primary Entrepreneurs and 300 Secondary Entrepreneurs who will effectively be given their own small enterprise, which they will manage and will allow them to generate ongoing income.

Furthermore, AfriCanopy intends allocating 30% of its shares to those Primary and Secondary Entrepreneurs who continue successfully operating their "Business in a Box" for a duration of longer than 3 years.

For more information visit <https://www.gyrotek.co.za/> and <https://www.zenzele.africa/>

## Aviation companies

Aziza Coin's aviation strategy focuses on developing private fixed wing and drone companies with the primary aim of exploring large areas for hydrocarbons. A secondary focus is to disrupt the current inefficiencies in the private commercial aviation industry.

## GYROTEK (PTY) LTD

Founded in 2017, in South Africa, Gyrotek uses gyrocopters mounted with gravity and magnetic surveying technology to carry out high resolution airborne gravity surveys on Namibia-focused oil and gas explorer Africa New Energies' 22,000 km<sup>2</sup> concession in Namibia as well as a number of South African concessions totaling 32,000 km<sup>2</sup>.

Gyrotek layers multiple indicators from an array of techniques and survey data of varied types, in order to build up a body of evidence with regards the statistical likelihood of hydrocarbons being discovered.

Numbers at a glance...

- 54,000 km<sup>2</sup> covered
- 7 Concessions across Southern Africa
- 7 projects R&D projects underway currently

## Company Highlights

- Venture Capital Company and specialist energy fund, Alumni Energy Investments, invests in Gyrotek and as part of their incubator approach, facilitate the provision of research and development services by Gyrotek to UK exploration company, Africa New Energies.



- In June 2020 Gyrotek purchased its first gyrocopter from Germany's Gravionic GmbH
- Gravionic GmbH in collaboration with the Institute of Flight Guidance and Control (IFF, Technical University of Braunschweig) started in 2018 with the research and development works to adapt a special gravimeter system to a Gyrotek's Cavalon gyrocopter.
- After around 20 months of research and development and thanks to significant government funding provided by ZIM (a funding programme of the German Federal Ministry for Economic Affairs and Energy), on 07th of April 2020 the first test flight with this brand new system was conducted successfully.
- Compared to traditional airborne gravity systems based on larger twin-engine airplanes, this new survey system is able to fly at low altitudes (e.g. 10 to 30 meter above the ground) at a very slow speed (50 to 80 km/h). This 'low and slow' capability is the key to enable outstanding high-resolution airborne gravity results.
- The Cavalon gyrocopter provides a remarkable flight time of about 4 hours, and - as a characteristic of every Gyrocopter / Gyroplane - it can land safely and slowly even should the motor fail.
- Combined with state-of-the-art magnetics this system will enable extremely effective high resolution airborne geophysics sensing to detect new natural resources at a fraction of industry standard costs

Gyrotek's research and development is focused in the following areas:

- Remote Sensing
- Exploration Licence conversion
- Airborne Survey
- Passive Seismic
- Seismoelectrics and Tellurics
- Regional Calibration
- GeoChem Sampling
- Exploration Results Consolidation
- Exploration Drilling

For more information visit <https://www.gyrotek.co.za/>



## OMEGA AIRFINDER

### Flight planning and monitoring software

Omega Airfinder is a revolutionary flight planning and monitoring software built to overcome the limitations existing with present flight planning software.

Omega Airfinder software is developed with the following features:

- Automatic routing for flight routes, considering many variables and delivering the most effective, cost efficient and appropriate route between departure and destination.
- Altitude optimisation for aircraft performance considering, temperature, altitude, air conditions and aircraft weight.
- Machine learning of specific aircraft performance, aids in accuracy of future flight plans, performance, range and total efficiency in aircraft operation.
- A graphic map to visualise planned route including navigations data and flight routes all displayed on map.
- 24/7 support, planning assistance and technical support.
- Centralised database, ensuring that the latest navigation as well as weather and notices to airman data is available at all times.
- Accurate in-flight data, including information that is derived from an option probe that can be installed on the aircraft.
- Omega Airfinder can be accessed from any device and any web browser anywhere in the world at any time to fulfil flight planning requirements.
- In flight monitoring and telemetry will be saved to the server and accessible for the purpose of regulatory audits, statistics and analysis of flights, aircraft or routes.

## OMEGA AVIATION

Omega Aviation is an innovative Aircraft and Flight management company that is streamlining private travel and carving a new niche: affordable private travel.

The company manages end-to-end logistics and hospitality in the private charter customer experience as well as aircraft maintenance, planning and training and hangarage.



Omega Aviation reduces costs along the entire value chain, including:

- Aviation training
- Flight support
- Trip planning
- Flight planning
- Ground handling
- Fuel efficiency planning
- Landing permissions
- Catering

## DRONETECH PTY (LTD)

### Drone operations

Dronetech is in the process of developing three key innovations that are needed to open up a lucrative industrial applications market:

1. A portable wide-area multi-channel drone communications system
2. Centimetre accurate DGPS, using the portable communications tower
3. Integration of low-cost LiDAR with photogrammetry

These innovations will enable civilian drones to reliably perform tasks that were not previously possible. These include:

1. 360 degree high resolution photos
2. Close range LiDAR accuracy images with photogrammetry colouration which will enable cracks and fatigue to be identified in cables and other remote infrastructure
3. Thermal imaging

Dronetech is involved in innovation projects as part of its mandated purpose to have tech lead the way to improved social and economic standards in our society.

For more information on Dronetech's R&D projects visit <https://www.dronetech.africa/rd-projects/>



## 2. Start-up support through Aziza Coin's shared services ecosystem

Increasing the likelihood of success of young companies with high potential is one of the central tenets of the Aziza Coin's existence. A clearly identified means to achieve this is by providing a centralised mechanism whereby essential services are provided at economies of scale.

The below extract of the full table at addendum A illustrates the plethora of existing and future services:

Area	Service offering	Strategy	Main benefit	Revenue allocation method	Targeted financial saving vs typical external market costs
Banking & Finance.	Regulated fundraising in closed stage (4 triggers methods).	Use the 80% coin purchase option for companies to buy the coin and sell it in the ICO, attracting earliest stage investors who use their realised coin gains and tax deductions to get access to early stage investments.	"Primes the pump" making the risk in start-ups to a wider group of crowdfunding investors. This service is the biggest benefit of all, as these companies would simply not be funded without this mechanism.	10% of amount raised	Targeted financial savings typical external market cost.



## Corporate contact details and advisers

### **Auditors**

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## Definitions And Interpretations

In this Restricted Sales Offer Memorandum, unless the context indicates otherwise, reference to the singular shall include the plural and vice versa, words denoting one gender include others, expressions denoting natural persons include juristic persons and associations of persons, and the words in the first column have the meanings stated opposite them in the second column as follows:

"Coin Administrator"	Alumni Risk Services Proprietary Limited ("Alumni Risk") – Reg No: 2015/019189/07
"Aerium Coin Foundation"	The Digital Autonomous Organization administering the Aerium Coin Foundation, which will be used to distribute in specie dividends
"Aerium Coin Administrators"	The administrators of the Aerium Coin Foundation for the time being and any duly constituted committee thereof and any successors to such members as may be appointed from time to time
"Aerium Coin"	Digital Currency issued by the Aerium Coin Foundation - designed to be a form of liquidity for swapping of services for in specie dividends
"Annual Actuarial Evaluation"	An annual assessment by an independent third party as to net asset value of shareholdings in investee companies supported by the Aziza Coin and the net present value of the cashflows derived from the Shared Services Contract as per the Standard Valuation Methodology
"Application Form(s)"	The Mandate and Application Form(s) for use in respect of the Offer for new investors to apply for Coins transferred from existing Wallet Holders who have elected not to use them;
"Auditors"	Sondlo Chartered Accountants, South Africa
"Aziza Coin Buyback Appreciation Factor "	Refers to the rate at which coins are burned as a mechanism to distribute returns to Coin Holders. The model uses a factor of 8%
"Aziza Coin Risk Return Matrix"	The risk scoring matrix that the Aziza Coin investee companies are scored with where a portfolio's failure rate and expected returns are forecast. It also yields an internal rate of return that is used to discount future cashflows as per the Standard Valuation Methodology used in the Annual Actuarial Evaluation.
"Aziza Project LLC"	The Digital Autonomous Organization administering the Aziza Coin



"Aziza Coin Founders" or "Founders"	The members of the management committee of the Aziza Project LLC for the time being and any duly constituted committee thereof and any successors to such members as may be appointed from time to time.
"Aziza Coin"	Digital Currency issued by the Aziza Project LLC - designed to be a form of liquidity for swapping of services for in specie dividends
"Base Currency"	of the Foundation, being Ethereum
"Blockchain"	A blockchain is a digitized, decentralized, public ledger of all cryptocurrency transactions
"Board"	The board of directors of the VCC Companies for the time being and from time to time, which, as at the Last Practicable Date, comprises the persons identified in paragraph 16 of this private placement memorandum
"Bounties and Fees"	Fees payable to the Coin Administrator on successful conclusion of a transaction
"BTC"	The Bitcoin cryptocurrency
"Burn"	The act of destroying coins as per the rules set out in this agreement
"Business Day"	Any day other than a Saturday, Sunday or statutory holiday in South Africa; The closing time and date of this sales offer is expected to be 17:00 on 5 April 2018 but which may be amended by the Company by way of an announcement released on its website
"Buyback Mechanism"	A section of the smart contract where receipts from investee companies are distributed by burning coins
"Buyback Period (s)"	Period after which all coins are issued, where coins are burned as a way of distributing dividends to Coin Holders
"The Coin (s)"	A term used to describe Aziza Coins and Aeriums collectively
"Coin Administration Agreement"	The agreement between Company and the Coin Administrator (as supplemented, amended or replaced from time to time)
"Companies Act"	The South African Companies Act, No. 71 of 2008, as amended
"VCC Company"	Alumni Energy Investments Limited – Reg No: 2013/201438/06
"Connected Person"	Connected Person as defined in Section 1 of the Income Tax Act 58 of 1962
"Dormant Phase"	Period between the first date of issuance of the coins and the period in which they can be traded



"Eligible Investor"	An eligible investor as defined in the section headed "Subscription of Shares"
"Enterprise Investment Scheme"	Tax subsidized incentive for Personal Tax Payers in the United Kingdom to support high risk early stage companies, which is less generous than the Seed Enterprise Investment Schema but allows for larger amounts to be raised
"ERC20 Contract"	The token standard that describes the functions and events that an Ethereum smart token contract must implement
"ETH" or "Ethereum"	The Ethereum cryptocurrency
"€"	The Euro
"FAIS"	Financial Advisory and Intermediary Services Act: the Financial Services Board acting in its capacity as the competent authority for the purposes of this document
"First Allocated Trading Slot"	Weekly trading slot where sales orders are implemented - enabling investors to sell Aziza Coin Tokens to Supported Investee Companies
"First date of issuance"	28 January 2014
"GBP"	The British pound sterling
"GitHub"	Is a development platform where software can be hosted and reviewed by peers and where the Aziza Coin Smart Contract Code will be publicly available for scrutiny 30 days before the ICO
"Gross Investment"	Nominal amount of capital invested
"gross negligence"	In relation to a person, generally means a standard of conduct beyond negligence whereby a person acts with reckless disregard for the consequences of his action or inaction.
"Ineligible Applicant"	An ineligible applicant as defined in the section headed "Subscription of Coins"
"Initial Coin Offering" or ICO	A way for all participants to join a Blockchain project acquiring a certain amount of initial token supply
"Investee Company Call Option Proportion"	The proportion of Aziza Coins that South African Investee Companies and UK Investee Companies to purchase from UK investors and South African investors



"In specie dividend"	A dividend in specie refers to distribution to shareholders in a form other than cash. It has benign tax implications - effective 20 January 2015, a beneficial owner of a dividend in specie which is exempt must submit a return to the Commissioner of SARS. A refund can now be claimed for a dividend in specie
"Investments"	Investments and transactions that the Aziza Coin may invest or engage in as described in the section headed "Investment Strategy"
"IT3(c) Form"	Form issued by the Coin Administrator to SARS indicating the extend of taxable realized gains from the proceeds of South African tax residents selling Aziza Coins
"Last practicable date"	18 October 2017, being the last practicable date prior to the finalization of this document
"Law"	The laws of the South Africa
"Management Fee"	The management fee payable by Foundation to the Coin Administrator in the form of burning Aziza Coins in return for ETH
"Material Agreements"	The Coin Administration and any agreements entered by the Foundation with any custodian or nominee
"MOI"	The Memorandum of Incorporation of The VCC Company, as amended from time to time
"Money Laundering Regulations"	The Money Laundering Regulations 2007
"Net Asset Value"	The net asset value of Company portfolio investments determined in accordance with this Information Memorandum and the Articles
"Offer Period"	The period from 18 October 2017 to 5 April 2018
"Offer Price"	Price offered for the Aziza as per determined pricing formula
"Participating Venture Capital Company"	A company registered under the South African Financial Services Board and under Section 12J of the South African Income Tax Act of 1962 as amended
"Practice Note 5"	SARS Comprehensive Guide to Capital Gains Tax (Issue 5) found online at <a href="http://www.sars.gov.za/AllDocs/OpsDocs/Guides/LAPD-CGT-G01%20-%20Comprehensive%20Guide%20to%20Capital%20Gains%20Tax%20-%20External%20Guide.pdf">http://www.sars.gov.za/AllDocs/OpsDocs/Guides/LAPD-CGT-G01%20-%20Comprehensive%20Guide%20to%20Capital%20Gains%20Tax%20-%20External%20Guide.pdf</a>



"Private Key"	60-digit hexadecimal code that effectively gives the possessor of said key control over a wallet, thereby enabling them to remove digital coins from the wallet. Embedded within this 60-digit code is an encryption of the 40-digit public key
"Public Key"	40-digit hexadecimal code that is required to enable a 3rd party to send digital coins to a wallet
"Risk Capital"	The amount invested in Ordinary Shares less the S12J deduction available at the investor's marginal/relevant tax rate
"Sales Period"	The period during which investors can participate in the Digital Currency Restricted Sales Offer Memorandum Offer
"SARS Ruling"	Ruling that Aziza Coin has sought as to the tax treatment of gains derived from proceeds of the sale of Aziza Coins
"SARS"	South African Revenue Services
"Second Allocated Trading Slot"	Weekly trading slot where sales orders are implemented should coin holder fail to sell their coins in the First Allocated Trading Slot- enabling investors to sell Aziza Coin Tokens to Supported Investee Companies. If the wallet holder fails to sell in the Second Allocated Trading Slot, their Aziza Coin tokens are transferred to Aeriums
"Secondary Coin Offerings"	A way for all participants to join a blockchain project acquiring a certain number of new tokens being issued post the Initial Coin Offering
"Seed Enterprise Investment Scheme"	Tax subsidized incentive for Personal Tax Payers in the United Kingdom to support high risk early stage companies, which is more generous than the Enterprise Investment Scheme but restricts that amount allowed to be raised to GBP150,000
"Shared Services Contract"	A contract signed between the Aziza Project LLC and South African Investee Companies and UK Investee Companies, where the Aziza Coin is the exclusive supplier of services as defined in the specimen agreement in this document
"Shareholder"	A person recorded as a holder of Participating Shares in the Register of Shareholders. A token holder in whose wallet there are Aziza Coins, Aeriums or other Digital Currencies is not a Shareholder
"Shares"	Means collectively Ordinary Shares in the VCC company or Ordinary Shares in a UK investee company
"SME"	Small Medium sized enterprise



"Standard Valuation Methodology"	Method of valuing illiquid stakes in investee companies supported by the Aziza Coin
"Subscription Price"	The price at which tokens may be acquired in the ICO
"Supported Investee Companies"	Investee companies that have signed the shared services contract and option purchase agreement with the Aziza Project LLC
"Tax Act or Income Tax Act"	The Income Tax Act, Act 58 of 1962, as amended, consolidated or re-enacted from time to time and includes all schedules to the Income Tax Act
"this Document or this Digital Currency Restricted Sales Offer Memorandum or RSOM"	This Digital Currency Restricted Sales Offer Memorandum or "RSOM", including its annexures dated 18 October 2019
"Tokens"	Ethereum tokens are digital units that are being built on top of the Ethereum blockchain
"UK Investee Companies"	Companies that are registered Seed Enterprise Investment Schemes or Enterprise Investment Schemes that have in turn signed the Aziza Coin shared services agreement
"Unbundling"	Issuance of digital coins and shares into different companies to existing investors of the company doing the unbundling
"Underlying Net Asset Value"	Net Asset Value as per the Annual Actuarial Evaluation, which will be conducted as per the Standard Valuation Methodology
"USD"	United States Dollar
"Venture Capital Company or VCC"	A Venture Capital Company as defined in Section 12J of the Income Tax Act
"Venture Capital Shares"	Shares in Alumni as defined in Section 12J of the Income Tax Act being Ordinary Shares and 'A' Ordinary Shares
"Wallet Holder"	Holder of a Digital Wallet
"ZAR"	The South African Rand



## Reasons to participate in the Aziza Coin initiative

Our reinvestment strategy offers an opportunity to earn enhanced returns with limited capital risk into a venture capital company that:

- Is the only cryptocurrency risk-managed start-up funding initiative
- Provides upfront tax relief of up to 45% on the investment
- Has the ability to carry forward any amount of investment exceeding taxable income as a tax loss in future years
- Has returns of capital not subject to recoupment if venture capital shares held for at least five years
- Allows investments in a portfolio of high-growth energy assets focused on supporting and transforming the South African and global energy industries with gains in cryptocurrencies
- Provide a unique eco-system of international customers, granting agencies, media promotion and relationships with investors

## Salient dates and times

Opening date of the Private Placement	09:00 on	12 October 2020
Publication of the Restricted Sales Offer Memorandum		12 October 2020
Expected Closing Date of the Restricted Sales Offer Memorandum	17:00 on	5 April 2021
Successful applicants advised of allocations and refund of surplus		3 working days after investment

\* The dates and times in this RSOM are subject to change, and any changes will be published on Aziza Coin's website, [www.azizacoin.com](http://www.azizacoin.com)



## Purpose of the private sale offer memorandum

The purpose of this document is:

- To inform existing beneficiaries that they have the opportunity to realise a capital gain, which can be reinvested in a tax efficient manner
- To inform new potential participants in Enterprise Investment Schemes in the UK and Venture Capital Companies in South Africa about the potential to start their support of start-ups by being allocated free Aziza Coins on a use-it-or-lose-it basis
- To invite a limited number of sector-relevant companies, business associates and employees of the supported VCC companies to become new wallet holders of coins transferred from existing wallet holders, who chose not to exercise their right to sell, in anticipation of the Initial Coin Offering of Aziza Coin in May 2023
- To increase the issued capital of supported Venture Capital Companies thereby enabling them to invest in Qualifying Companies as defined in Section 12J of the Income Tax Act
- To enhance investor and public awareness of the Aziza Coin Entrepreneurship Initiative
- To pave the way for a successful ICO in May 2023

While there is no obligation to reinvest capital gains on realisation of the Aziza Coins, the support scheme is materially assisted in the closed phase by investment in the venture capital companies and EISs. Where there is more supply of coins for sale than demand, investors who have pledged the most support to companies in terms of industry contacts, potential investment and relationships with other investors will be prioritised over traders with a short-term profit-taking outlook. Key to the philosophy underpinning the coin is to create a broad base of patient capital providers, angel investors and sweat equity providers, who have the financial understanding to reap the benefit of these higher risk investment strategies.

## Legal status and jurisdiction

The **Aziza Project LLC is a digital autonomous organisation that is unincorporated at this point.** As coins are allocated free of charge and cannot be purchased in the closed period, **it does not qualify as a security.** The Aziza Project LLC is incorporated in the Isle of Man, a jurisdiction sympathetic to its Africa-focused social aims.



## Nature of the activities

The Aziza Coin represents a smart contract that encompasses its activities within the structure of a digital autonomous organisation. The Coin was created to solve the chronic problem of lack of entrepreneurial activity within the developing world and to improve investor returns by creating an environment where high potential start-ups can thrive, thereby giving investors superior risk-adjusted returns to those that they can achieve currently.

Its activities can be categorised in three broad phases:

1. **Stage 1** – Priming the pump – enabling existing investors in start-ups to use the coin to raise 150% more capital than the investee companies have raised to date;
2. **Stage 2** – Using the Initial Coin Offering – which will not attract any tax benefits in its own right – to create a diversified lower risk revenue stream for coin holders, where proceeds will be used to fund a comprehensive suite of entrepreneur support services to increase the probability of start-up success. These support services will grow into a largely self-sustaining eco-system of 1,000 companies across a dozen industry sectors, where technology innovation created by investee companies will be given a route to market through other investee companies and coin holders before selling onto external 3rd parties.
3. **Stage 3** – Buying back the coins as a means of distributing returns to coin holders and providing them with attractive tax free in specie dividends, by increasing the utilisation of investee company assets such as aircraft, telecoms bandwidth and hotel rooms.

## Regulated status

The Aziza Project LLC is resident in the Isle of Man. As it does restrict the sale of the Coin to a group of UK Investee Companies and South African Investee Companies (as defined), the contract precludes any investor from paying money for the coins.

Much thought has been put into how the coin can be kept compliant while the regulatory position in key target countries is uncertain. The Coins exploit the fortuitous situation that they were issued over three years ago and already exist. Each of the 1,000-people allocated a coin has provided detailed KYC information for other purposes. They have also indicated that they are sophisticated investors. The Coins therefore can be sold



and transferred and allow or restrict potential buyers to selected investee companies.

However, as many sellers of the coin will be investing into Venture Capital Companies in South Africa and Enterprise Investment Companies in the UK, the reinvestment will be regulated activities, and the regulated status on these investee companies will be handled by the Restricted Sales Offer Memorandum specific to that investee company.

Currently no regulator has provided a framework for Initial Coin Offerings, so this remains a legally grey area – that is - everywhere except for China, where ICOs have been outlawed. Therefore, no person resident in China may participate in this offering.

The issue of regulating the Initial Coin Offering in May 2023 will be handled closer to that time, when regulators give guidance as to how such an event can be handled in a legally compliant manner.

Where coins are sold for other digital currencies that are readily convertible to fiat currencies such as ETH, the Coin Administrators will apply vigorous KYC procedures to ensure compliance with the Financial Intelligence Centre Act (FICA) in South Africa.

### **3. Problems that the aziza coin seeks to address**

#### **Background – banks, bonds and baby boomers**

Since time immemorial, humans have sought ways to build trust, thereby enabling them to transact more cheaply in their move towards specialisation and away from subsistence. This need gave rise to barter, which in turn was replaced by money. With money, came the perceived need for a centralised authority to control that money. In ancient times this authority tended to be a king or the state, but since 1912 with the creation of the privately owned Federal Reserve in the USA and the privately-owned Bank of International Settlements, which regulates 125 (mainly privately owned) central banks, the issuance of money has largely been in private hands. These formal institutions grew so much that they now comprise 8% of global GDP and exert more control over the governments that regulate them. In this process they have moved from gold-backed currencies, to paper-backed fiat currencies, which like Bitcoin, are based on nothing more than a promise. When the internet arrived, they moved this process from paper online.

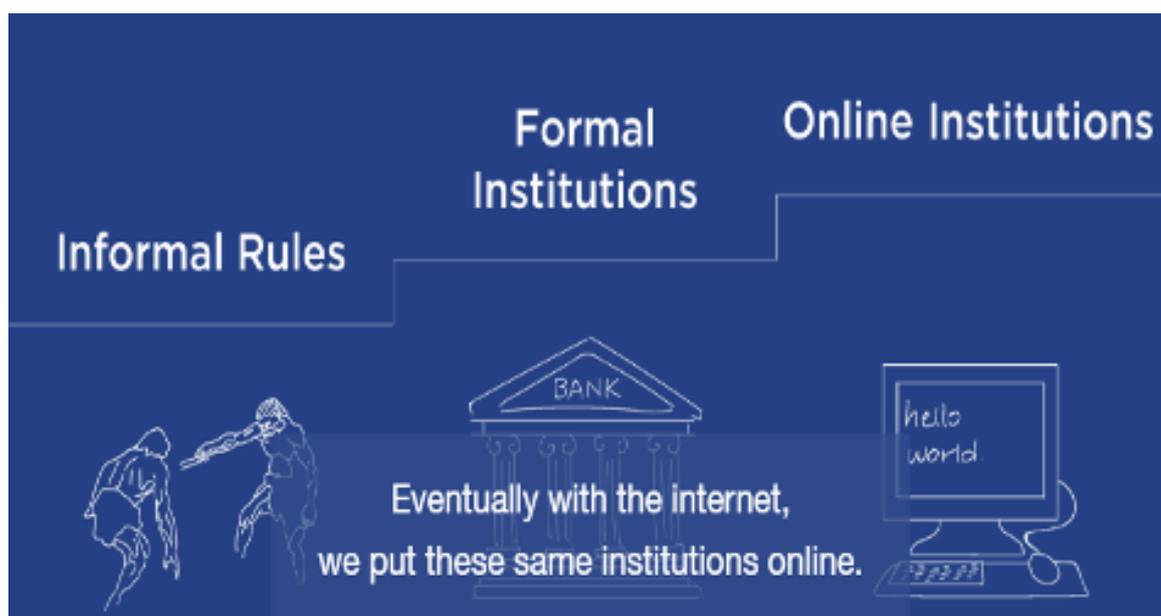
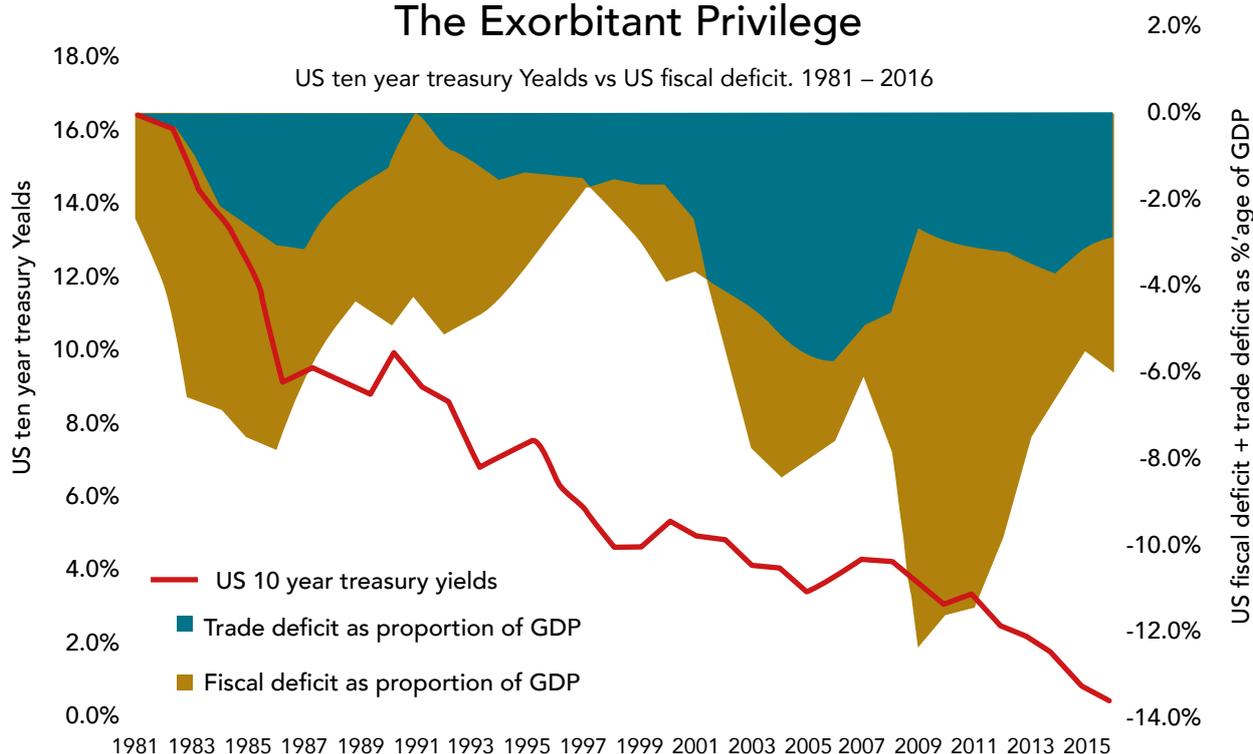


Figure 1. How transactions have become formalised and automated over the ages

For much of the 20th century, fiscal discipline was maintained by the fact that central banks had to back their currency with gold – that is until 1968, when the Bretton Woods system started to collapse. After 15 August 1971, when Richard Nixon revoked USA's commitment to the gold standard, the US Dollar has lost an average of 7% per annum vs gold since 1971. The dollar became a fiat currency, backed by only a promise and a distortion in the foreign exchange markets in what became known as the "Exorbitant Privilege". The Exorbitant Privilege was a phrase coined by Valéry Giscard d'Estaing, the French Minister of Finance, at the time of the Bretton Woods collapse. He referred to the fact that as the US dollar became the world's reserve currency, where key imports – notably oil and gold were pegged to the dollar price, the USA would never face a balance of payments crisis, as both its imports and exports were in a currency over whose supply its economy could create extra supply. Put another way, if the US wanted a barrel of oil, it could print US\$50 to pay for it, whereas France needed to sell US\$50 of French goods to buy the US\$50 on the foreign exchange markets it needed to pay for the barrel of oil. Giscard d'Estaing predicted correctly that the USA would destabilize the world economy by running up vast current and fiscal account deficits that would eventually cause the global fractional reserve system of banking to collapse. (Sampson, 1968).



## The Exorbitant Privilege



**Figure 2.** Giscard d'Estaing's Exorbitant Privilege 1981 – 2016 where trade and fiscal deficits added up to a cumulative 6% of GDP per annum over this period. Despite this, interest rates reduced from 16% in 1981 to less than 1% in 2017, while the dollar has gradually appreciated against other currencies<sup>1</sup>.

With the power to create money through a privately-controlled fractional reserve system, privately owned banks have accumulated unparalleled power over governments prompting Bill Clinton's advisor, James Carville to say that if reincarnated, he would come back as the bond markets<sup>2</sup>.

The problems of the fractional reserve system in private hands were exacerbated by Baby Boomers, those born between 1945 and 1965. These represent 60 million or 20% of the US population whose savings were put into pension funds as they saved prodigiously at their peak earning powers fuelling the stock market gains in the Great Bull Run between 1982 and culminating in the internet frenzy in 2000. From 2000, when the first baby boomers turned 55, pension rules stipulated that funds had to transfer from equities into bonds, driving bond prices up and with them, bond yields down. Lower interest rates, meant that each dollar of income could purchase more assets on borrowing, causing a global property boom. See below:

1 Data from graphs acquired from Federal Reserve Bank of St Louis <https://fred.stlouisfed.org/series/DGS10>

2 New York Times – 28 May 2011 "Why Are Investors Still Lining Up for Bonds?" by Jeff Sommer <http://www.nytimes.com/2011/05/29/your-money/29stra.html>

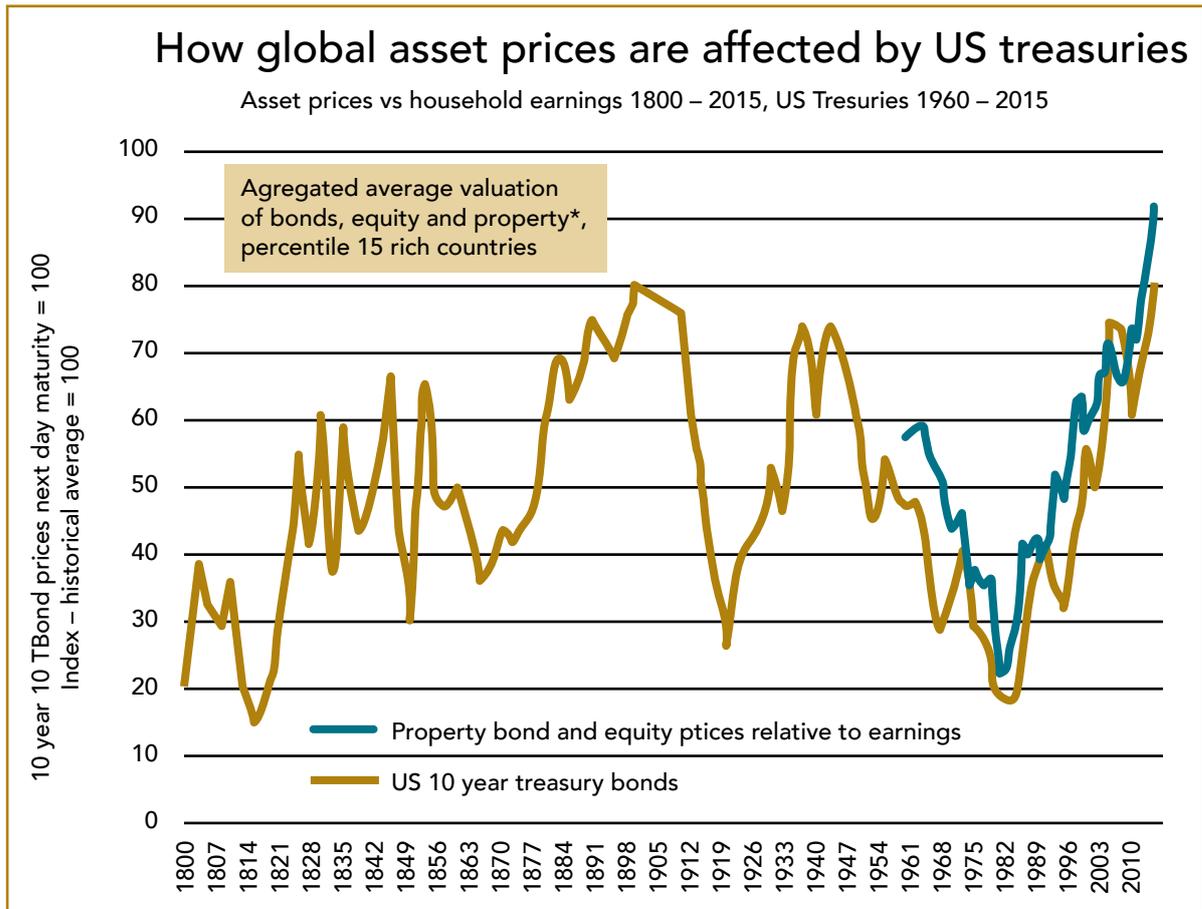


Figure 3. Correlation between US treasury prices and property, equity and bond prices<sup>3</sup>

As bond prices increased, reducing interest rates and therefore returns, bankers became more creative with the use of derivatives to separate credit risk exposure from the underlying loans. This contributed to the derivatives markets ballooning to \$700 trillion in 2008, where over \$400 trillion were interest rate based derivatives.

The extent that these bankers were out of control became apparent to the wider population in 2008, when despite almost \$2 trillion being wiped from the US property market with the sub-prime crisis, a US government bailout worth \$787 billion and the threat of a global banking collapse causing millions of jobs to be lost, not one banker was charged with fraud.

Regardless of one's views on financial institutions, this analysis shows that it is increasingly difficult to adhere to the adage "Buy Low Sell High" in the current market. *Figure 3 Correlation between US treasury prices and property, equity and bond prices* shows that asset prices relative to household earnings are more expensive than at any time since the French Revolution.

<sup>3</sup> Deutsche Bank, The Economist, Federal Reserve of St Louis for bond pricing fo<https://fred.stlouisfed.org/series/DGS10>



## The impact of financial intermediary costs on returns

The low returns are reduced further by the size of intermediary fees.

In a report lambasting the statutorily protected revenues of the United Kingdom's £6.9 trillion fund management industry's profit margin of 36%, the Financial Conduct Authority found that "firms do not typically compete on price with their retail active funds in the UK [and that] there is some evidence of a negative relationship between net returns and charges."<sup>4</sup> The UK is typical of the €30 trillion global fund management industry.

The failure of the fund management model has resulted in high net wealth investors, pension funds and sovereign wealth funds avoiding the use of asset managers – where 64% of the world's US\$100 trillion of assets are self-managed. A disproportionately large proportion of the remaining assets that are managed by active fund managers are those of retail investors.<sup>5</sup>

Retail investors who face negative returns on certain European bonds such as Germany and Switzerland, may tend to instruct their financial advisors to take more risk. The impact of the layers of intermediary fees becomes more extreme, the more risk an investor takes, where up to 76% of returns from private equity are consumed by fees and tax. This means that an internal rate of return of 12% would be required to achieve UK inflation of 2.9%, with fees and taxes consuming 76% of annual returns.

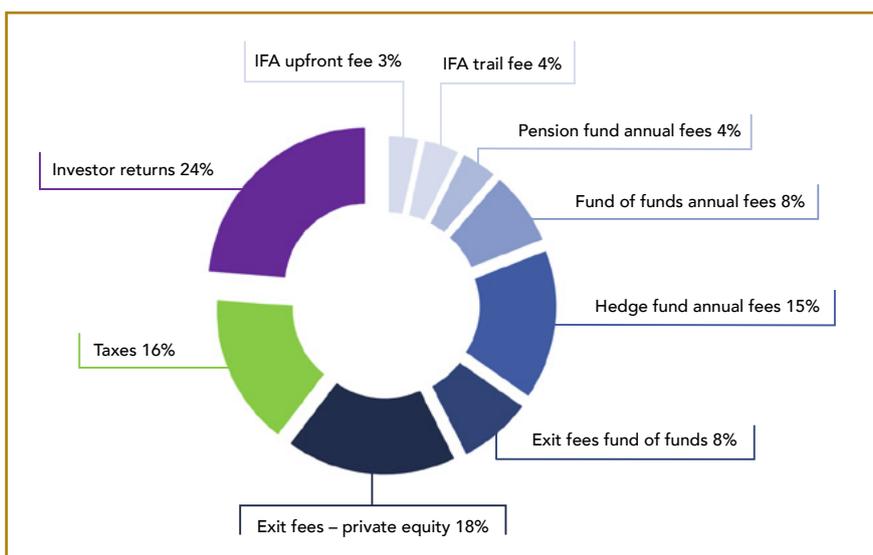


Figure 4. Effect of private equity fees and taxes on a retail investor returns<sup>6</sup>

4. *Asset Management Market Study – Final Report Market Study - MS15/2.3 -June 2017 recommendations* 1.9 1.10 and 1.11 page 4 <https://www.fca.org.uk/publication/market-studies/ms15-2-3.pdf>

5. *Asset Management 2020 A Brave New World* published by PWC <https://www.pwc.com/gx/en/asset-management/publications/pdfs/pwc-asset-management-2020-a-brave-new-world-final.pdf>

6. Based on IFA trail commissions of 3% upfront plus 0.5% per year, pension fund fees of 0.5% per year, fund of fund fees of 1% per annum and 10% profits and private equity fees under the 2+20 rule



## The impact of low returns and high fees on job creation

The low interest rates, high asset prices and excessive fund management fees means that fund managers cannot afford to take much risk with the capital they are entrusted with, because, if they did and lost it, clients would seek to recover the excessive fees in the courts and through the criminal justice system. For this reason, the fund management industry has become increasingly risk averse, driving up bond prices and other low risk asset classes while largely ignoring earlier-stage ventures as the figure below illustrates, where 0.02% of funds went into seed capital.

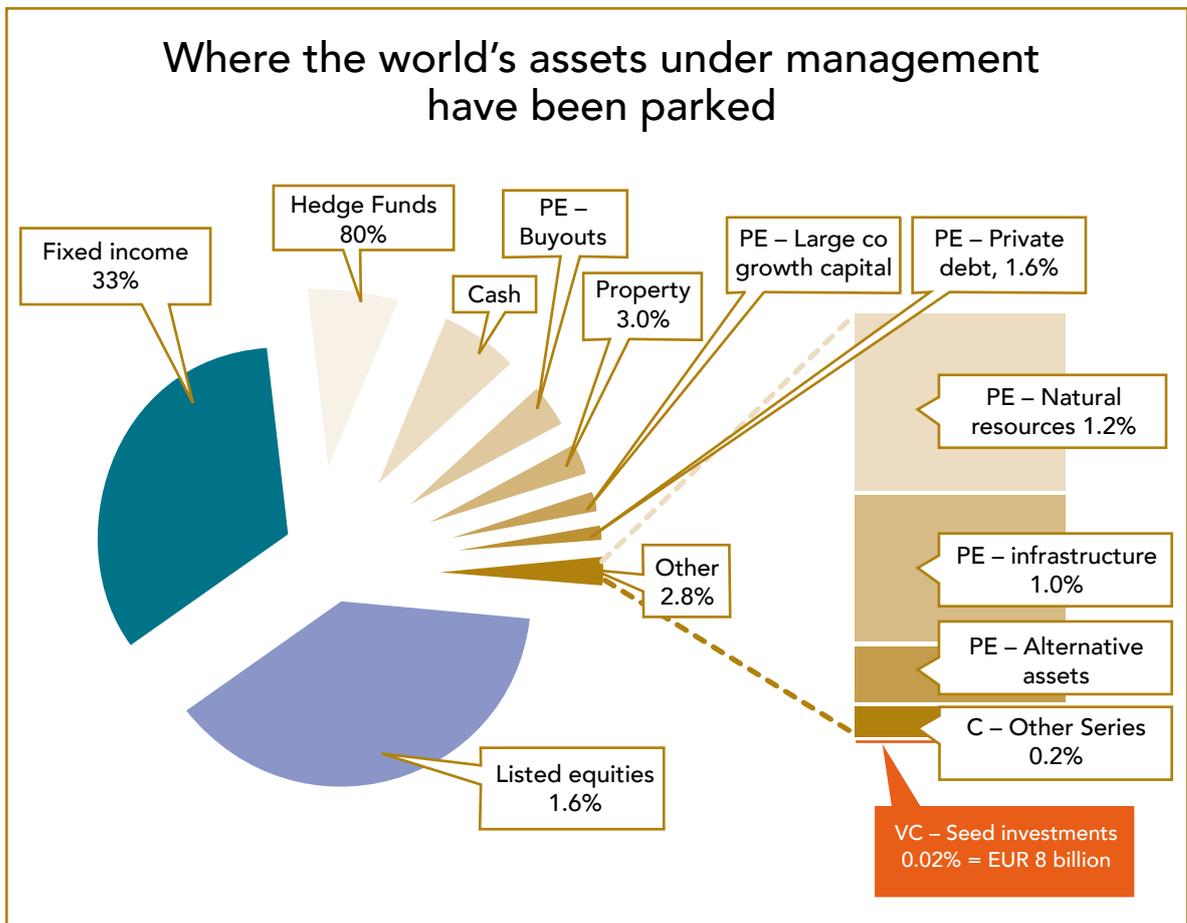


Figure 5. Where the world parked the €32.7 trillion under management in 2016<sup>7</sup>

Figure 5 above shows what proportion of the world's assets go into seeding start-up ventures. 6,127 were funded in 2016 to the value of €8.1 billion where the median investment was €0.7 million.<sup>8</sup>

7. Compiled from many sources - McKinsey & Co February 2017 - A routinely exceptional year  
[https://www.barclayhedge.com/research/indices/ghs/mum/HF\\_Money\\_Under\\_Management.html](https://www.barclayhedge.com/research/indices/ghs/mum/HF_Money_Under_Management.html)  
<https://www.theinvestmentassociation.org/assets/files/research/2016/20160929-amsfullreport.pdf>  
[http://www.ussif.org/files/Trends/US%20SIF%202016%20Trends%20Overview\\_Investment%20Managers.pdf](http://www.ussif.org/files/Trends/US%20SIF%202016%20Trends%20Overview_Investment%20Managers.pdf)
8. KPMG – Venture Pulse Q4 2016 – Global Analysis of Venture Funding <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/01/venture-pulse-q4-2016-report.pdf>



The three questions therefore that this background document attempts to address are:

1. What is the link between employment and asset returns?
2. What would the “correct” proportion of funds under management be to invest into seed capital?
3. What do investee companies need to do to be sufficiently investment ready for investors to be confident enough to invest in their companies?

### The link between employment and government revenues

Governments depend on middle income employees, value added taxes and corporations’ taxes for the bulk of their revenues. We illustrate our arguments by comparing seemingly different economies:

	Tanzania	South Africa	United Kingdom
Income level	Low	Mid	High
GDP per capita PPP current USD	2,786	13,225	42,609
Services value added as proportion of GDP	11.9%	27.2%	36.9%
Proportion of economy that comprise services	41.5%	68.4%	80.2%

Figure 6. Comparing key statistics to a low, middle and high-income economy

Government spending consumes over 40% of GDP in the OECD and 35% globally with a strong correlation between income and government spending. With government spending included, 69% of all global economic activity is spent on services. In our three-country comparison, the difference between sources of government revenue are surprisingly similar, where personal consumption forms the greatest contribution to taxes:

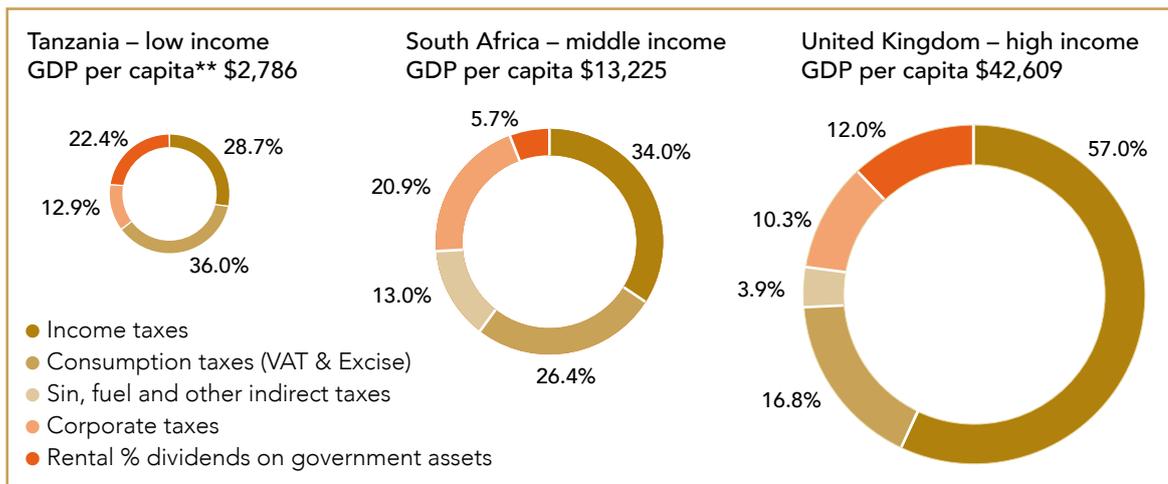


Figure 7. Government dependence on jobs and personal consumption for taxes

As Figure 5, where the world parked the €32.7 trillion under management in 2016 shows, 33% of the world's assets under management are in bonds, the majority of which are government bonds that depend on taxes to service them. Of these, 39% are in listed equities, which depend on the people with jobs for demand and governments with tax revenues to buy their products. So, with each of these two asset classes, which comprise 72% of assets under management, they are highly dependent on adults having jobs and paying taxes. They are therefore critically vulnerable to decreased labour force participation and so need to find new avenues of investment that create the most jobs, which in turn create income for consumers and taxes for governments to service their bonds.

The current fund management model does not address the issue of job creation, and the risk becomes more imminent with each passing year that it is ignored. As the world faces unprecedented change with the rise of automation and artificial intelligence, vast numbers of jobs that are performed by low and mid-level skilled people will be performed by machines in the next two decades. Therefore, the world's political stability, and indeed the fund managers' ability to protect the capital they have been entrusted with, depends on the number of new jobs created to replace the existing ones being made redundant by technology.

## Who creates the world's jobs?

Having established the link between employment and government's ability to service bonds and personal consumption to sustain corporate profits, the next question that needs to be addressed is what types of organisations need to be supported to create the jobs the economies need.



To answer this question, we are indebted to the decade-and-a-half of free research conducted by *The Global Entrepreneurship Monitor*<sup>9</sup> ("GEM"), which since 2002 has performed in-depth research into the link between entrepreneurship and job creation, where their teams have sampled a vast array of metrics relating to entrepreneurship of more than 80% of the world's population. Those sampled are resident in the 65 of the world's most populated countries GEM have analysed. Its findings have striking policy implications. The world's Total Entrepreneurial Activity ("TEA") (i.e. those who are running their own business as their primary source of income) is counter-intuitively high at 15% of the adult population (which is defined as people aged between 15 – 64). With 65% of the world's population of 7.6 billion within this adult age group, there are 5 billion adults and based on GEM's 15% global TEA, there are 750 million entrepreneurs. Most entrepreneurs do - and expect in the foreseeable future - to run small businesses, and therefore do not have the ambition to be categorised as "High Expectation Entrepreneurs". These are assumed in this document to be unfundable and therefore out of scope, which is defined in the following way: A High Expectation Entrepreneur is defined as a person who is currently starting a business and intends to employ more than 20 people in the next five years. The Global Entrepreneurship Monitor's 2004 report estimates that 9% of entrepreneurs globally could be defined as "High Expectation Entrepreneurs".<sup>10</sup> Further analysis performed by GEM in the South African economy shows that when including their own employment, entrepreneurs employed almost 50% of the South African population with 4.1 million of the 8.3 million jobs in existence in 2004.<sup>11</sup>

9 <http://www.gemconsortium.org/>

10 *Global Entrepreneurship Monitor Global Report 2004* – edited by John Orford Mike Herrington Eric Wood. TEA 2004 Characteristics by Country Income Level Page 38 - <http://www.gemconsortium.org/report>

11 *Global Entrepreneurship Monitor Global Report 2004* – above - Table 8: Total employment provided by owner-managed enterprises in South Africa: 2004 Page 25

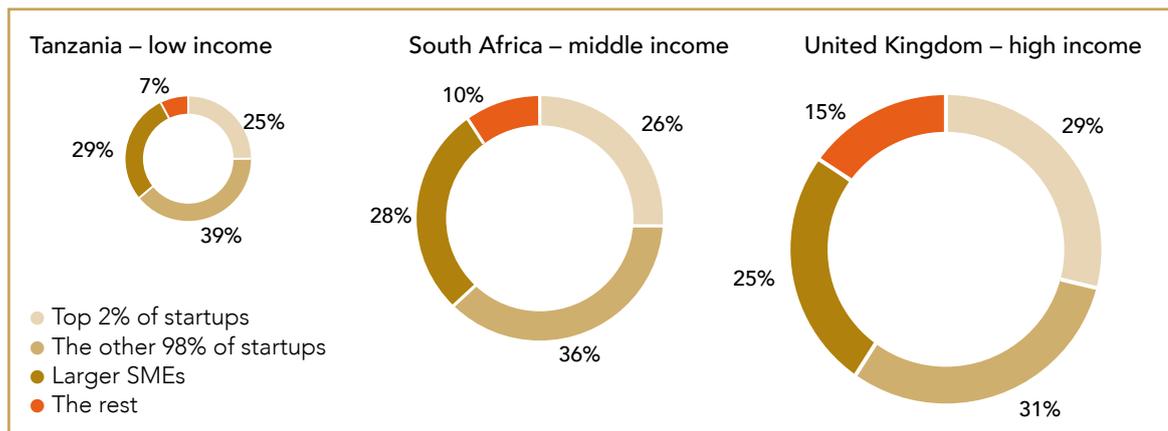


Figure 8. Net job creation by organisation

As the graph above shows, job creation is surprisingly similar for three economies at dramatically different stages of their development. The 2% most successful start-ups created 25% of net new jobs in Tanzania, a low-income country. South Africa’s “Top 2%” created 31% of net jobs and in the UK, 29%. Elsewhere, in the GEM analysis in 2004, they found that start-ups created 62% of jobs globally, with the lowest at 57% and the highest at 65%. When SME’s were added over 90% of all net jobs created were created by this sub-group globally. Even SME’s in high income countries such as the UK, which under-performs on the TEA relative to its peers, achieved similar results to Tanzania and South Africa which GEM defined as low income and middle-income economies respectively.

**The research shows that across a wide range of levels of GDP per capita, the contribution to job creation by entrepreneurs is consistent and the impact is counter-intuitively high.**

It is therefore reasonable to assume that all stakeholders should focus policy research and investment on maximizing the capacity of the “Top 2%” to create employment regardless of the stage of economy development of the host country.

## What proportion of funds under management should be allocated to startups?

Despite generous support for angel investment by governments such as those of the UK and South Africa, investment has not been forthcoming. Based on the KPMG study cited above, 47,000 entrepreneurs received seed capital globally between 2010 and 2016 – less than €60 billion. Since there are 750 million entrepreneurs in the world and 9% are expected to be high expectation entrepreneurs, with the top 2% creating between 25% and 30% of net new jobs, we assume that only the top 2% should be allocated funding and the Aziza Coin will only focus on



this section of the market. The chances of an adult being a high expectation entrepreneur and receiving seed capital funding in any given year is close to 1 in a million.<sup>12</sup>

Based on a population of 750 million entrepreneurs in the world, The Top 2% that “deserve” seed capital represents a population of 15 million. As these 15 million entrepreneurs are at different stages of their business development, only a small proportion will require seed capital each year. We assume that this population of entrepreneurs will be replaced every ten years, with successful exited businesses being replaced by young hungry start-ups. We assume that the stock of “Top 2%” start-ups turns over every three decades. This means that 500,000 entrepreneurs should be funded each year.

Every generation – defined as 30 years – this top 2% cohort is replaced with an up-and-coming cohort. Therefore, if the entire top 2% is to be funded over the 30 year period, 500,000 entrepreneurs around the world need to be allocated seed funding. In 2016 only 6,147 of them received seed funding. We therefore estimate that a mere 1.2% of the potential market is being served. Remarkably, the top 2% can be identified solely on the size of the business they intend to create at the point of start-up.

In terms of levels of capital requiring to be deployed per seed capital investment, we assume that the seed investment capital requirement will reduce as the population increases. Currently, the median pre-investment valuation in start-ups is €5 million, and the median investment at €0.7 million. We assume that if it were to increase to the target level, significant economies of scale will result in material savings in the amounts needed for starting up – see examples in Securitisation of the Central Services Contract. We therefore use €250,000 per start-up investment in our theoretical model.

Based on 500,000 entrepreneurs per year and seed capital of €250,000, we therefore estimate that €125 billion per year should be allocated. The following stylised demand and supply curve shows how the market can grow. The Aziza Project LLC’s intentions will reduce the cost of supplying investment ready start-up shares and increase investor demand for them. This would reduce the price of investment and increase the number of investments, and the size of the market.

<sup>12</sup> Based on the calculation of 6,147 start-ups funded in 2016 divided by 5 billion adults

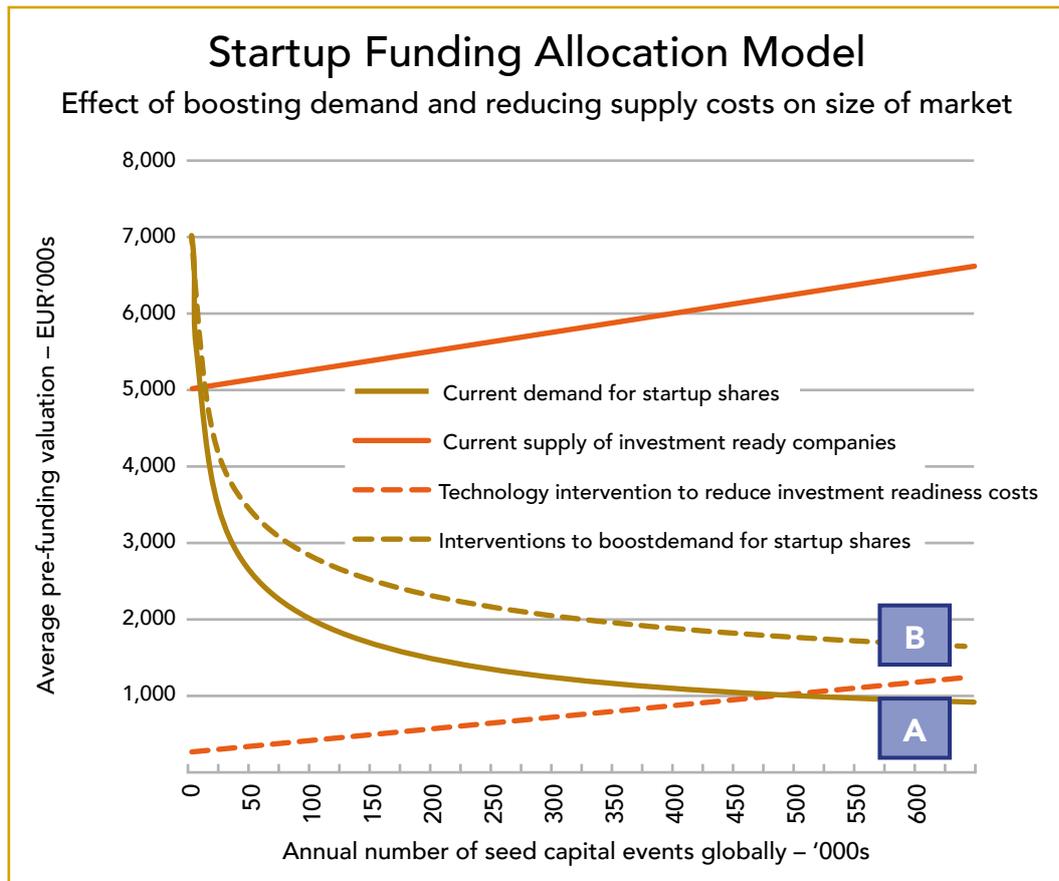


Figure 9. Effect of reducing transaction costs will have on start-up funding

Figure 9 shows how transaction costs force up the required valuation for a start-up funding event to happen. Start-up deals cost more in management time than buying assets in larger businesses, because they are so fraught with risks larger businesses avoid. Interestingly, this model shows that increasing demand for start-up shares will have little impact on the number of deals. The market for seed capital was €8 billion in 2016, where 6,147 deals were funded at a median pre-funding valuation of €5.1 million. As the graph above shows, increasing demand to curve B from curve A will have little effect, the issue of bridging the funding gap lies firstly with reducing the cost of creating an investment ready start-up. If it is possible to reduce the pre-funding valuation required to €1 million – an 80% reduction, with the €250k initial investment, the global target of supplying €125 billion per annum in seed capital will indeed be possible.

Counter intuitively, this requires a new type of large organisation that can drive down the cost of providing the services start-ups need by an order of magnitude. This new type of organisation will require substantial economies of scale to make this model sustainable. The Aziza Project LLC plans to create a replicated model, starting in South Africa.



Within the current South African context, Total Entrepreneurial Activity has improved marginally from 5.4% in 2004 to 6.9% in 2016. This is less than 50% of the benchmark for other middle-income countries where the TEA sits at 15%. With the country's adult population growth, the number of entrepreneurs has increased from 1.7 million to 2.5 million over this period. This means that the "Top 2%" comprises 50,000 owner-managed businesses that created over a quarter of the net new jobs the economy created. According to the venture capital association, only 44 businesses were funded in 2016, and none of these were start-ups. South Africa is not alone among developing economies – start-up funding simply does not exist, but the effects are particularly cruel with the country's history. It is not difficult to see how this market failure has contributed to the country's 36% unemployment rate.

Applying this logic to the South African economy offers promising results. If there are 50,000 fundable businesses that are funded at a rate of 3.3% or 1,660 per year, with an average investment of €150 000 (R2.5 million) which represents 60% of the model's global average, the start-up sector would receive €250m per year or €1 billion over the next four years. This is about 0.4% of the R4.7 trillion of funds currently under management.



## How can the cost of investment-readiness be reduced?

If the solution to the problem of allocating resources to the organisations with the highest propensity to create jobs was as simple as this, such intervention would have been legislated decades ago through the tax system. Both entrepreneurs and fund managers agree that the problems are more complex and that it would be impossible for entrepreneurs to absorb this amount of start-up capital with their current support structure.

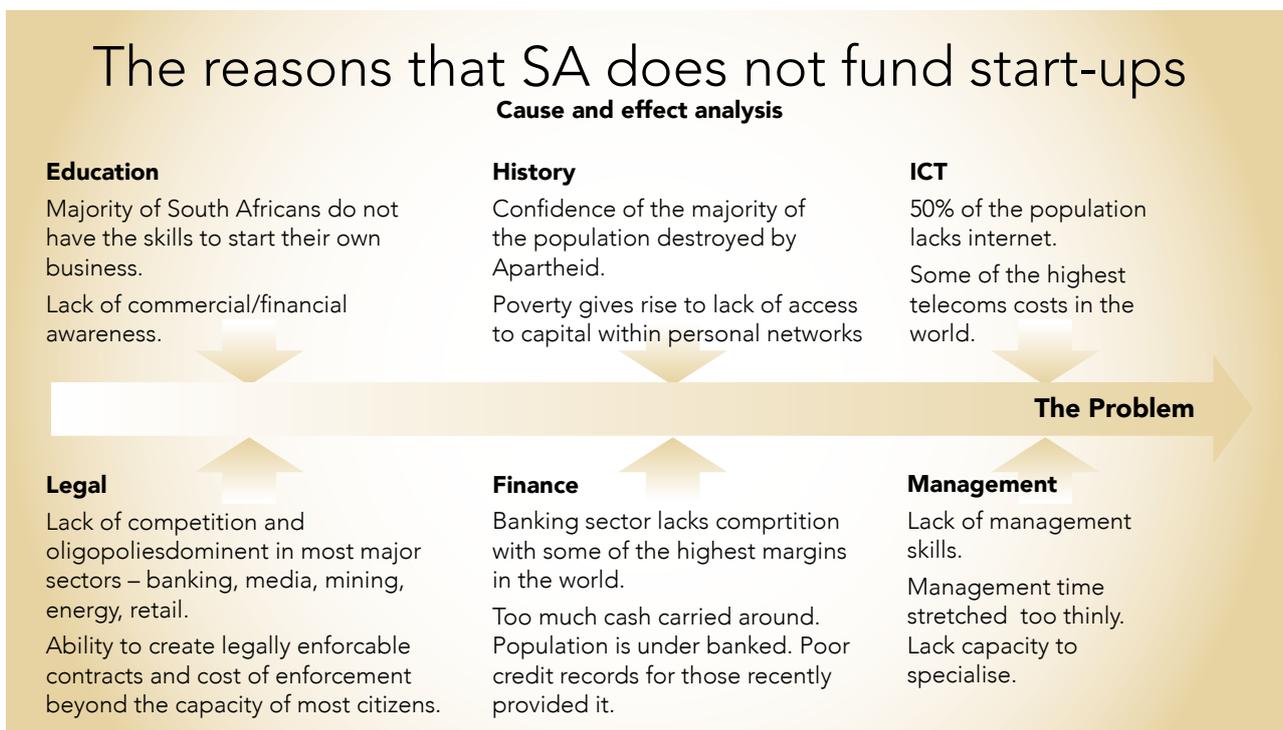


Figure 10. Reasons for lack of investment readiness of South African start-ups

This document explores a solution to this complex problem, where the gulf between investment readiness of start-ups and the ability of a fund manager to select an optimal portfolio of entrepreneurial businesses is bridged.



## 4. How the aziza coin addresses its market gap

The Aziza Project LLC seeks to create an entrepreneurial support platform where 1,000 South Africa-focused start-ups can absorb €3 billion (R47 billion), and provide sufficient scale to deliver superior risk-adjusted returns to those conventional fund managers when investing in traditional assets using their legacy fee-based revenue model.

The Foundation uses blockchain-based smart contracts. To understand how it is implementing its strategy, readers need to be familiar with the angel investment support that is available and technology developments that underpin its ambition.

### Using blockchain to increase trust in entrepreneurial businesses

Blockchain was born during the 2008 financial crisis. Some view it as the latest tool to lower uncertainty so that human beings can connect and exchange value in society. But blockchain is different: with it, uncertainty can be reduced not just with political and economic institutions such as banks, corporations and governments - but with technology as well.

The first cryptocurrency using blockchain was the now infamous Bitcoin, which was designed by the mysterious and yet untraceable Satoshi Nakamoto in 2009. Bitcoin used cryptography to create its digital currency, where tokens are issued each time a computationally demanding problem is solved. The problem is farmed out to a distributed cloud of miners (computers working on the task), where the computer that solved the problem is rewarded with a predetermined bounty – called a Proof of Work.

The elegance of the system revolves around its ability to create a computational problem that is difficult to solve, but once one of the computers on the network has a solution, it is easy for the rest of the nodes to verify it as being correct. Once verified by all the nodes on the network, this new block of transactions is recorded with a date and time stamp onto the ledger (called the blockchain), where it is written onto every node in the network, making it unchangeable and unhackable, as it would be impossible to rewrite the data onto every computer simultaneously. As the implications of blockchain receive wider attention, it is becoming increasingly apparent that the centralised system of monetary exchange should be replaced by a cheaper, more reliable decentralised system that



nobody can manipulate to their advantage. At present many feel that the banks are overcompensated for the task they perform, which is consuming 8% of GDP.

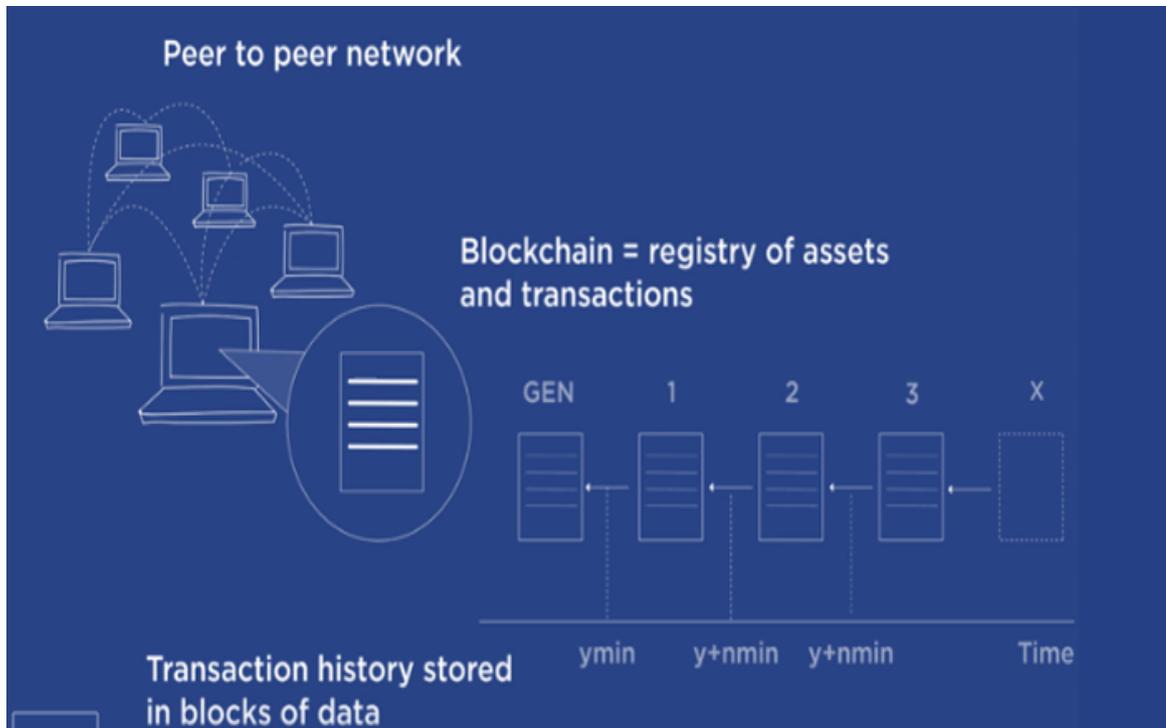


Figure 11. Schematic of blockchain system<sup>13</sup>

Blockchain represents Web 3.0 – by replacing dated, centralised trust-based systems with ones that are lean, decentralised and do not require trust to operate.

Over 1,000 blockchain based cyber currencies have been issued since the launch of Bitcoin with Ethereum being the most prominent and having the greatest potential. Unlike Bitcoin, it enables smart contracts to be integrated into its platforms enabling a myriad of new applications that will improve our ability to transact in virtually every area of our lives.

The Aziza Project LLC has designed an entrepreneurial support system based on a digital currency. This system increases the trust that potential investors can ascribe to start-up businesses requiring funding more cheaply than was possible without blockchain.

<sup>13</sup> Bettina Warburg Ted Talk – How Blockchain will Radically Transform the Economy [https://www.ted.com/talks/bettina\\_warburg\\_how\\_the\\_blockchain\\_will\\_radically\\_transform\\_the\\_economy#t-152659](https://www.ted.com/talks/bettina_warburg_how_the_blockchain_will_radically_transform_the_economy#t-152659) – the text of the talk can be found in Addendum C



## Aziza coin's vision

The Aziza Project LLC's vision is to create a blockchain-based cryptocurrency that enables start-ups to achieve better returns than traditional assets.

## The economic efficiencies aziza coin plans to tackle

Aziza Coin intends to deal with these inefficiencies by:

- Using price discriminated smart contracts to improve capacity utilisation of certain asset classes such as hotel rooms, bandwidth and aircrafts
- Exploiting the miss-pricing of risk and the regulatory problems exacerbating it
- Countering the problem of job destruction caused by mergers and acquisitions
- Affording global opportunities to support angel funded R&D investment

## Objectives

Aziza Coin uses a smart contract on the Ethereum platform that in turn reduces transactional costs and uncertainty for entrepreneurs, supporting them to increase the probability of success, thereby increasing investor returns.

To scale a digital currency that delivers token holders superior risk-adjusted returns when compared to conventional fund management products:

1. By providing the start-up capital within a closed trading system of restricted buyers and sellers using the coin's perceived discount to net asset value to realize profits, while at the same time making them sufficiently investment-ready to attract regulated tax subsidised angel capital
2. To provide a centralised suite of support services boosting the capacity of investee companies selected, increasing the probability of successful exits for technology firms
3. To use blockchain smart contract technologies to reduce the administrative costs of investing, and distributing returns to token holders from the 36% of returns he industry currently consumes to 10% of returns.



The ultimate objective is to create an asset class with sufficient scale, diversification and liquidity to enable mainstream non-sophisticated investors to invest in emerging economy start-up companies.

## The aziza coin mechanism

### The issuance of coins

The first batch of Aziza coins was issued in 2014, when the idea of a digital currency was first introduced to the founders of Africa New Energies in 2013. To date 5 billion coins have been issued offline. These coins have been in a dormant state as at the time of their issuance the technology for blockchain-based smart contracts had not been invented. If fully subscribed to, a further 3 billion coins can be issued over a three-year period from 2018 to 2021, giving a maximum possible number in issue of 5,000,000,000.

The proceeds of the coin will be used to fund a central services contract, in return for which the investee companies will issue 20% of their share capital to the Coin Foundation. Target prices at which the ICO and secondary coin offerings are shown in Figure 13 below:

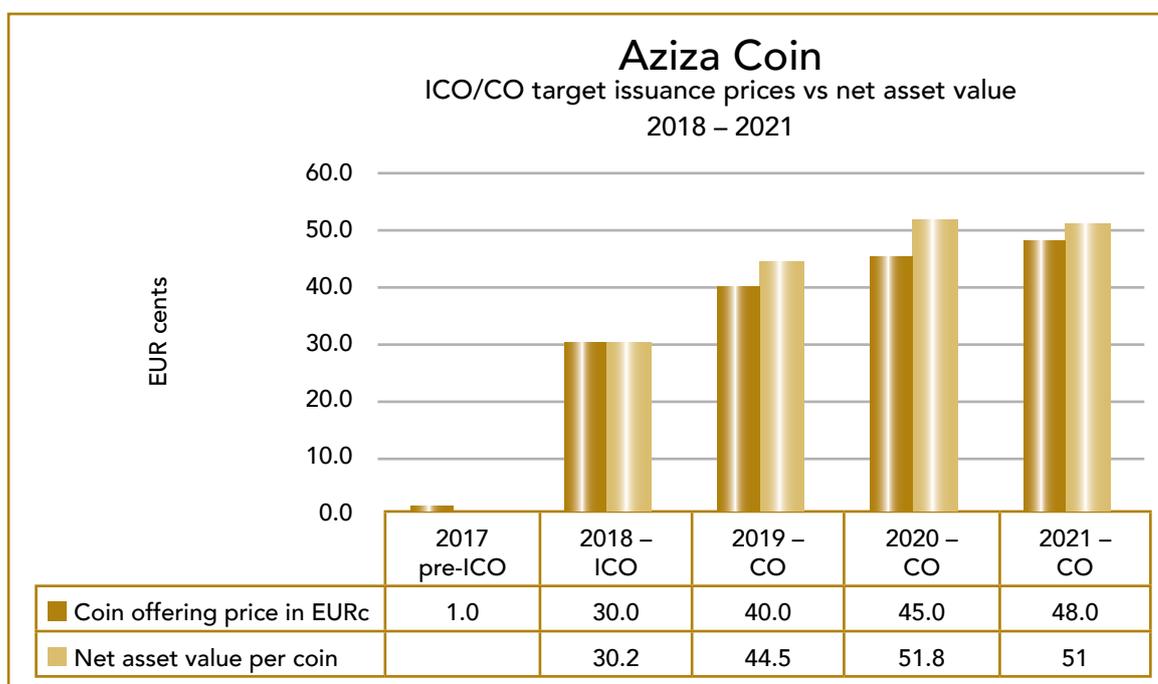


Figure 13. Aziza Coin target price on issuance



## Applying nudge theory in the four closed periods to stimulate early demand for shares

It is human nature to wait until the last possible moment before seizing an opportunity. This problem blights crowdfunding, as the crowd funder needs sufficient time to market an opportunity, but finds that investors only jump onto the bandwagon as the investment target approaches for fear of missing out. This means that most crowdfunds fail, as the initial momentum is insufficient for a final surge of interest as the deadline looms.

The Aziza Coin's pricing algorithm uses "Nudge Theory"<sup>14</sup> to solve this problem by restricting buyers and sellers within a closed period where the only counterparties able to purchase coins are the selected investee companies. They will be able to buy the coins at a significant discount to the Initial Coin Offering Price. In the initial stages, investee companies will be desperate to acquire coins while the price is still low, as they will ultimately benefit from the proceeds of the coin purchases when the Initial Coin Offering does happen. The demand for coins will increase as the opportunity to realize them approaches. The algorithm ensures that the early bird catches the worm.

As the coin was worthless for the first four years of its existence, and as sellers are selected based on their support for the investee companies, the coin is worthless to them if they do not participate in the coin sale and reinvest their gains on the realisation in support of the selected start-ups.

The contract uses nudge theory to offset the natural inclination to delay purchases until a deadline by heavily penalising purchases. Non-purchases result in the coin being swapped for another type of coin called an Aerium that is currently dormant – under the use-it or lose-it rule.

The structure is counterintuitive in a number of ways:

- 1. Investors can only sell, not buy** – In the closed period, the buyers are restricted to investee companies. They will be allowed to buy approximately 85% of coins that a prospective VCC or EIS investor holds. This leaves the investor with approximately 15% of the coins that can be sold on the ICO – or kept for future value appreciation and in specie dividends.
- 2. Use-it-or-lose-it** – Coin holders are allocated weekly trading slots, where they get to sell the coins at the lowest

<sup>14</sup> Nudge: Improving Decisions about Health, Wealth, and Happiness - Richard H. Thaler and Cass R. Sunstein, published 2008. The authors' work on Nudge Theory won the 2017 Nobel Prize for Economics



price earlier on. Coins they fail to sell, are swapped into coins (Aeriums) that will be untradeable.

3. **Weekly trading slots with restricted demand** – a coin holder is allocated a weekly slot where they are likely to be able to sell the coin, as the investee companies exercise their options to purchase the coins. Should the investor not take up the slot, they will be offered a second slot in the last week of that closed trading period.
4. **How selling at the lowest price benefits the seller** – there is a restricted demand for coins from the investee companies (based on EIS restrictions and amounts of cash they have). The investee companies will prioritise those sellers who they feel will benefit the Aziza Coin investee companies most – through social media, skills, investment or technical skills. Should the seller not use their allocated slot, they will be moved to the last slot and will end up losing most of their coins. If they do not trade at all, they will end up losing all their coins.
5. **Non-obligation to buy VCC or EIS shares:** investing in VCC or EIS companies is in no way a prerequisite for getting involved in this structure – however a prospective South African seller is unlikely to find a willing buyer in the form of a UK investee company, unless they have shown their long-term commitment by depositing sufficient cash to cover any tax benefits they would receive through a VCC tax deduction against their income. The need for this policy is explained as an anti-tax avoidance provision under the tax ethics addendum. Investors in underlying investee companies therefore invest in conventional illiquid shares within a regulated environment, where they receive generous angel investor tax breaks. Coin holders do not receive superior terms to other conventional investors into the VCC or EIS companies. However, the prospect of an imminent liquidity event on the coin will stimulate demand for the VCC investee companies and the EIS companies as their valuation will be boosted by the ICO.

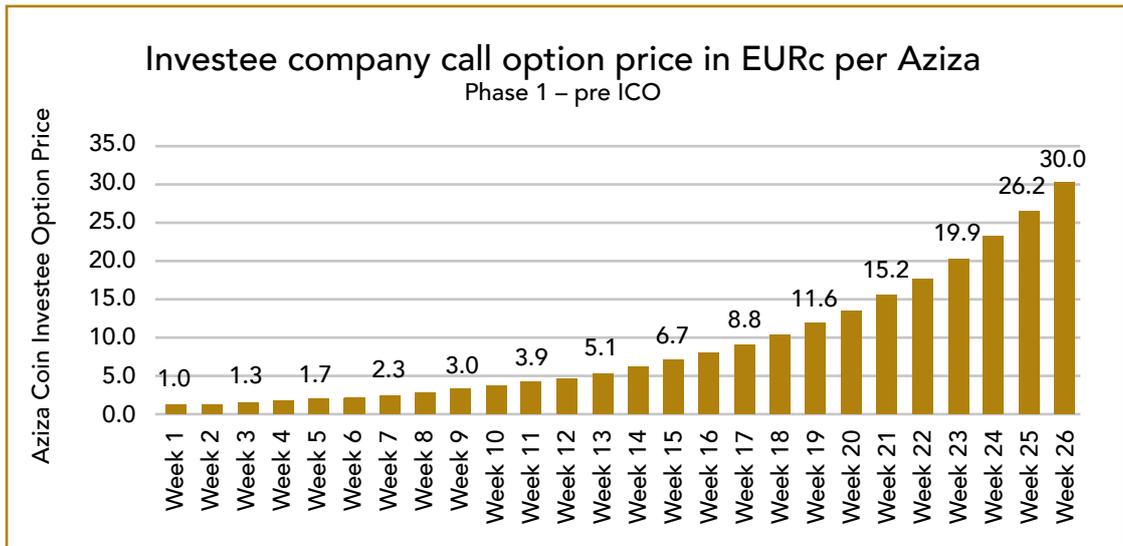


Figure 14. First Closed Period pre-ICO investee company option price

These rules are best explained by an example comparing the behaviour and outcomes of three fictitious characters who indicate intention to get involved – Abigail, Bert and Connie. All indicate their intention to invest R100,000. All three will benefit from a 30% average tax deduction, so the R100,000 VCC investment will reduce their taxable income by R100,000, and their tax bill by R30,000. The UK companies indicate willingness to exercise their option to purchase 85% of these three investors’ coins, allocating them a place in the most advantageous 1st trading slot where they sell their Aziza Coins for €0.01 each.

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	Abigail	Bert	Connie
Action	Uses first trading slot allocated	Fails to use 1st slot, makes sure he gets the second slot available	Fails to use either slot
AZI Coins allocated	509,925	509,925	509,925
Trading slot	Week of 12 Oct 2019	Week of 5th Apr 2020	Does not trade
AZI Option price	€0.01 (R0.16)	€0.30 (R4.85)	No price
AZI Coins sold – 85%	433,437 AZI sold @€0.01 or R0.16 per AZI Coin realizing a R70,000 profit, which is topped up with a R30,000 payment by Abigail, enabling her to invest R100,000 in the VCC	14,448 AZI sold @€0.30 or R4.85 per AZI Coin realizing the same R70,000 profit, which is also topped up with a R30,000 payment by Bert, enabling him to invest R100,000 in the VCC	0
AZI Coins retained – 15%	76,488	2,550	0
AZI Coins lost	0	495,477	509,925
Proceeds from ICO at target price of €0.30	R370,588	R12,352	0
VCC investment	R100,000	R100,000	0
VCC shares allocated	1,000,000	250,000	0
VCC share price	R0.10	R0.40	0

Table 3. Scenarios illustrating the effect of the trading slots and option prices on the number of coins an investor will retain for the sale at the ICO.

Existing coin holders will be given the slots on a first-come first-serve basis. If the slots are not used, they will be offered to new supporters of the initiative.



The cashflows of Abigail's transactions are illustrated graphically below:

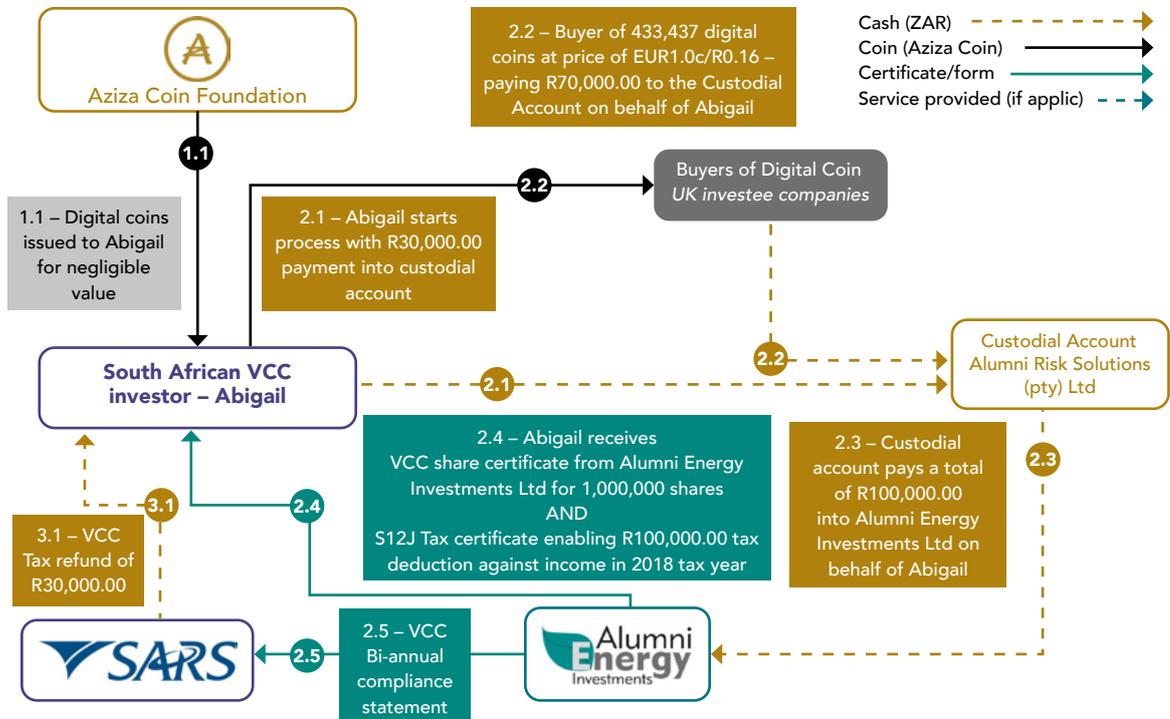


Figure 15. Coin sales process in the closed phase – Abigail's example

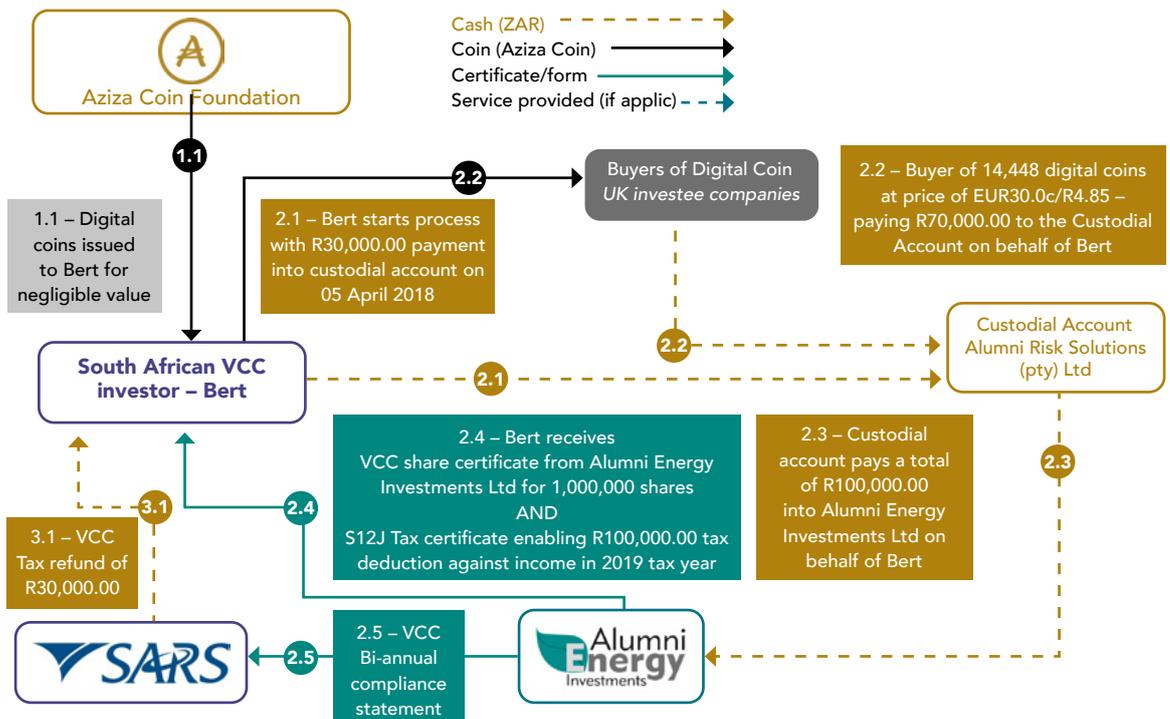


Figure 16. Coin sales process in the closed phase – Bert's example



The following weekly trading slots have been allocated for repurchase:

Week	Closing date weekly slot	Coin demand – investee companies (millions)	Price € cents	Trading amounts in €'000s
0	12/10/2019	1.633	1.00	16
1	19/10/2019	3.634	1.15	42
2	26/10/2019	13.522	1.31	178
3	02/11/2019	13.575	1.50	204
4	09/11/2019	18.466	1.72	318
5	16/11/2019	23.636	1.97	467
6	23/11/2019	25.787	2.26	583
7	30/11/2019	27.009	2.59	700
8	07/12/2019	27.502	2.97	817
9	14/12/2019	17.146	3.40	583
10	21/12/2019	-	3.90	0
11	28/12/2019	-	4.47	0
12	04/01/2020	-	5.12	0
13	11/01/2020	3.992	5.86	234
14	18/01/2020	8.684	6.72	583
15	25/01/2020	10.611	7.70	817
16	01/02/2020	13.231	8.82	1,167
17	08/02/2020	9.238	10.10	933
18	15/02/2020	11.087	11.58	1,283
19	22/02/2020	12.316	13.26	1,633
20	01/03/2020	13.360	15.19	2,030
21	08/03/2020	2.010	17.41	350
22	15/03/2020	2.924	19.95	583
23	22/03/2020	5.105	22.85	1,167
24	29/03/2020	40.183	26.18	10,521
25	05/04/2020	65.099	30.00	19,530
<b>TOTAL</b>		<b>369.750</b>		<b>44,740</b>

Figure 17. Trading slots available in closed period 1

There will be three subsequent closed periods that will happen in the 2019 UK tax year. The bonus coins awarded to those participating in these closed periods will only be available in the 2019 and 2020 UK tax years. The coins rewarding social media supporters will be available during each of the four-coin offerings.



See below for the issuance rules for both rewarding investors in the closed periods and incentivising social media supporters:

	ICO 2019	CO 2 2020	CO 3 2021	CO 4 2022
Rewards for investing in closed rounds ***	15.0%	12.0%	0.0%	0.0%
Rewards for social media	3.0%	2.0%	1.0%	0.5%

Figure 18. Closed period investor and social media rewards

The 2nd, 3rd and 4th closed periods will happen in 2019 after the ICO and will result in coins being issued in a similar fashion to the first closed period – where Aziza Coins will be issued to restricted accounts that the investee companies will be given the option to purchase 88% of coins (as opposed to 85% in the 1st closed period). Details of the closed periods are shown in the table below:

	1st trading period	2nd trading period	3rd trading period	4th trading period
Start date	12-Oct-17	28-Jun-18	20-Sep-18	27-Dec-18
End date	05-Apr-18	30-Aug-18	22-Nov-18	28-Feb-19
Number of weekly slots	26	10	10	10
Price in week 1 – € cents	1.0	1.0	1.0	1.00
Price in last week – € cents	30.0	33.6	35.9	38.72
Maximum coins purchased - millions	369.8	127.3	217.2	236.4
Average price paid by investee companies	12.1	28.1	28.1	28.1
Expected ICO price realized by coin holder	30.0	40.0	40.0	40.0
Expected profit margin on ICO	148%	42%	42%	42%
Bonus investor coins – millions	65.3	17.4	29.6	32.2
Bonus social media coins - millions	15.0	3.3	5.6	6.1
Jurisdiction	UK & SA	SA	UK	SA

Figure 19. Key metrics of the four closed rounds 2018 – 2019

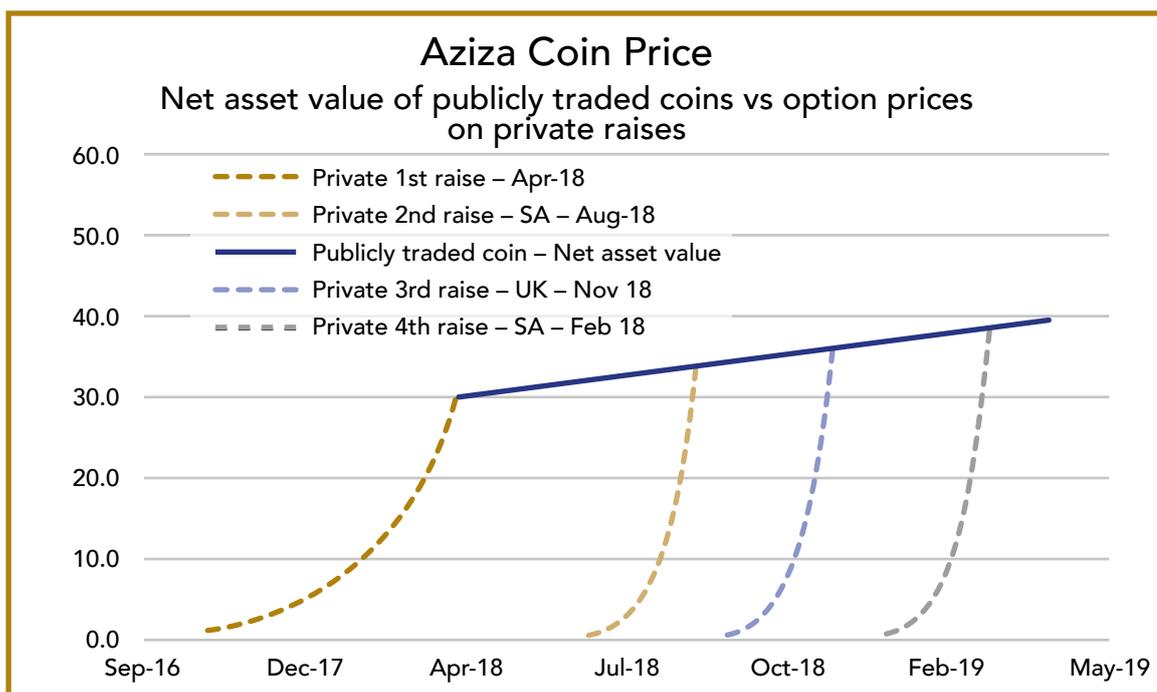


Figure 20. Option prices at which investee companies can repurchase coins, based on the weekly trading slots

The above graph, shows how steeply the price increases, rewarding early supporters of each raise, as, on a successful coin offering they stand to make up to a 30-fold increase on the 15% of coins they get to keep in the case of a successful sale to a supported investee company.

See the table below summarising the results of the underlying financial model whose hands the Aziza Coins will be in on full subscription after all four-coin issues.

	Coin holders post ICO – 2018	New coins issued in 2019	New coins issued in 2020	New coins issued in 2021
Issued/held by foundation management	50	75	125	200
Social media	15	15	13	10
Bonus coins for Pre-ICO/CO investors	65	79	0	0
Sold by investee companies to purchase coin obligations	221	381	852	1,575
Retained by investee companies for own expansion	149	200	260	215
Coins movement*		750	1,250	2,000
Coins at beginning of period	500	500	1,250	2,500
Coins at end of period	500	1,250	2,500	4,500

Figure 21. Coin issuance in the expansion phase 2018-2021



Note that this process is designed to “prime the pump” and encourage conventional angel investors to support the VCCs in South Africa and EISs in the UK. The Aziza Coin’s first goal is therefore to use itself to make initial investment into the VCCs attractive. The intention is that less than 10% of funding raised is through the Pre-ICO slots.

This initial investment will build momentum in conventional investment, where conventional tax-assisted angel investors will be encouraged to support these companies through regulated sales of shares. See below:

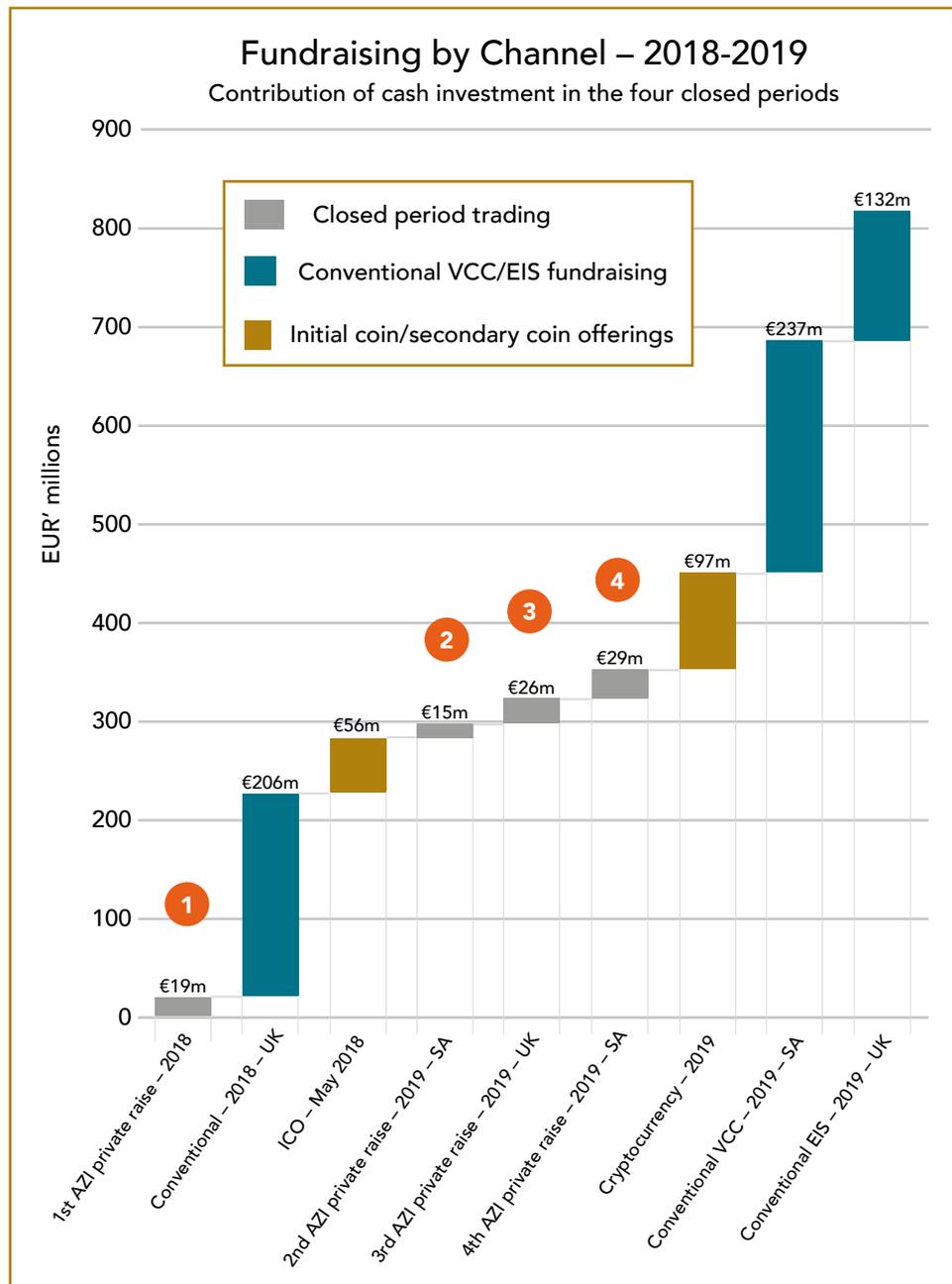


Figure 22. “Priming the pump” – using the Aziza Coin Buyback Option to spur conventional angel investment



Figure 22 shows how the four closed (numbered 1-4) sales of coins (numbered 1-4) to investors spur on investment making it possible for funds pursuing over 70 investment strategies to invest in 1,000 companies in four legal jurisdictions, using tax assistance.

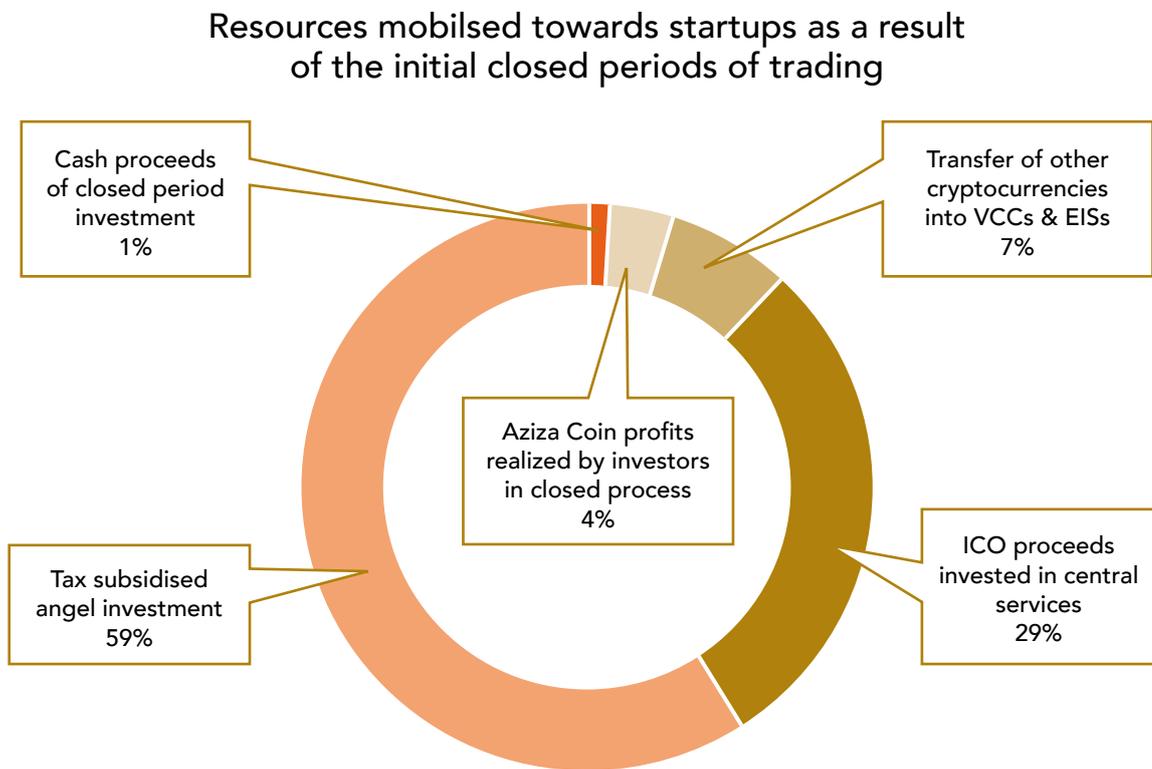


Figure 23. Contribution by financial transaction

Over the four-year period, the cash raised in the four closed periods is relatively modest, but without this initial boost the start-ups would not be sufficiently investment-ready to attract the funds the Aziza Project LLC believes will be raised on the initial spurt. For every Euro raised in these closed periods, €19 are raised subsequently.

## Initial coin offering and subsequent offerings

The initial coin offering is planned for May 2023.

After the initial closed period, the investee companies will hold 380 million coins based on a successful implementation of the trading programme, where the social media supporters will be allocated 3% or 15 million coins, pre-ICO investors 65 million coins or 13% with the foundation holding 10% or 50 million coins.

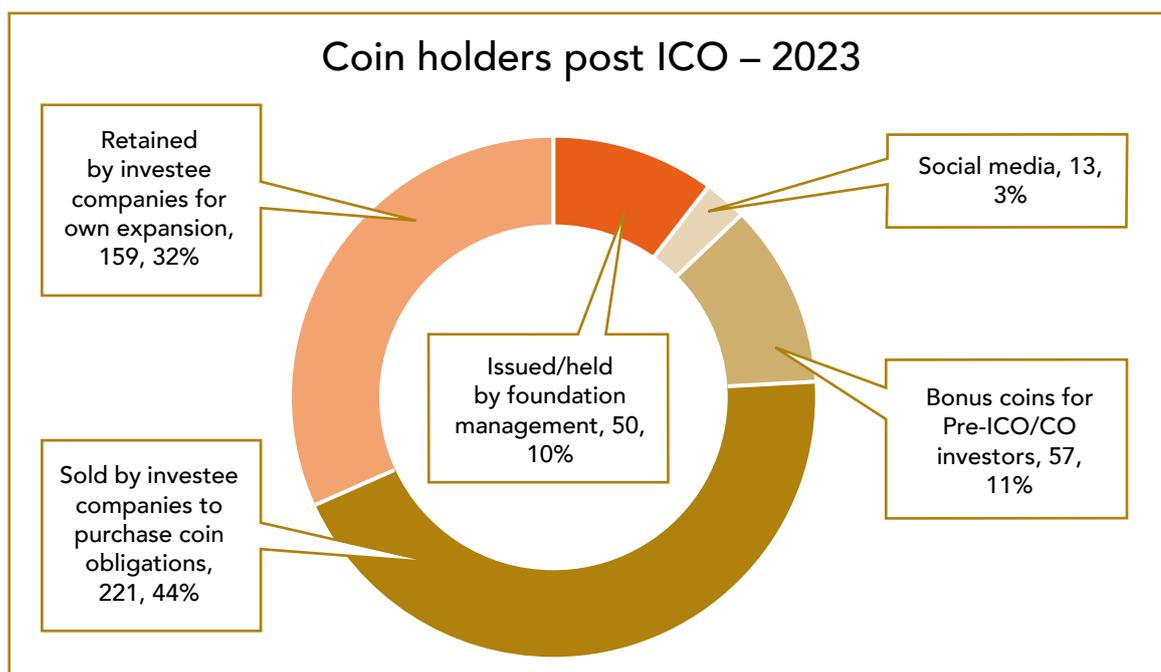


Figure 24. Coin holders post ICO

The Foundation plans to use the initial coin offering to fund purchasing the right to provide the central services contract to the investee companies who supported the investors in the first closed phase.

The coin rules stipulate that 15% of coin offering proceeds shall remain in cash.

Item	Description	€'millions	€ cents / coin contribution to net asset value at ICO
1st investee company stake	The Africa New Energies 20% stake was valued in an unsolicited offer at an enterprise value of \$5 billion that was rejected and a minority farm-in offer that was accepted. A 20% stake is therefore valued at \$100m (€85m)	€85m	17.0 cents
Option to invest 20% in other investee companies	The option will be based on the average valuation of cash raised by the start-ups for up to 20% of the shares in the companies. Note that this includes the central services contracts that are material to the coin. If the ICO raises less than the target the proportion of shares allocated to the Coin Foundation are pro-rated.	€55m	11.0 cents
Cash buffer	15% of target raise	€11m	2.2 cents
<b>TOTAL</b>		<b>€151m</b>	<b>30.2 cents</b>

Figure 25. Target net asset value breakdown for the ICO



The ICO price presents a 1% discount to the target net asset value of €0.302 (30.2 cents) per coin. Note that if fewer coins are sold, the ANE stake will ensure that at ICO, the net asset value will always be higher than the ICO price.

The target Net Asset Value discount to Coin Offerings is listed in the table below:

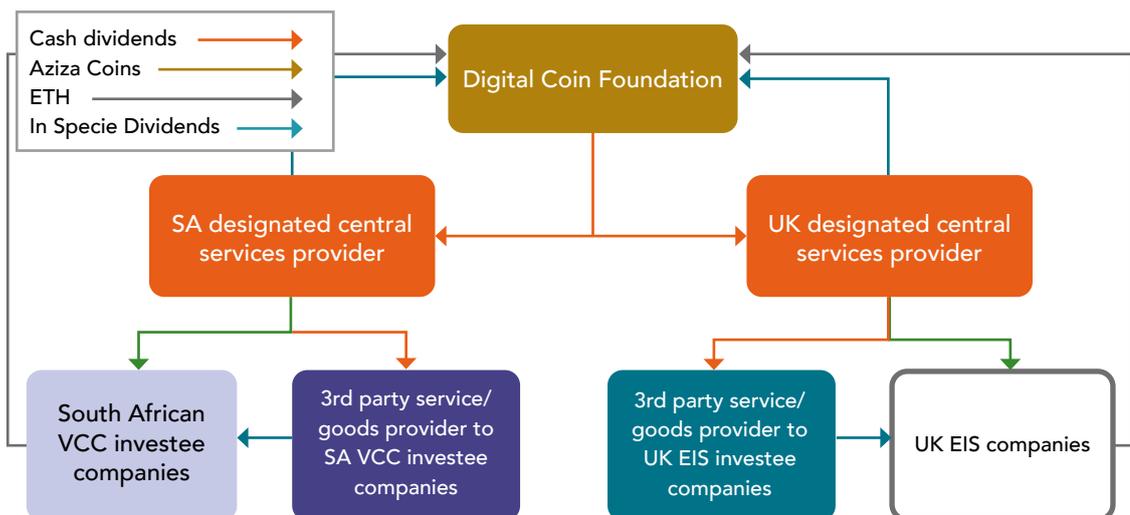
	ICO - 2018	CO-2019	CO-2020	CO-2021
Target public offering price	30.0	40.0	45.0	48.0
Net asset value prior to coin issue	30.4	41.7	48.4	48.8
Discount to net asset value	1%	4%	7%	2%

Figure 26. Target net asset value vs coin offering prices

### Use of ICO proceeds

The key differentiator of the Aziza Coin is how proceeds are used to achieve the aims of the Foundation – that is to increase the probability of investee company success.

While the central services contract is discussed in greater detail in a section below, the central services contract is designed to deal with perhaps the greatest concern that an investor will have in deploying capital to a high-risk start-up. That is the start-up will lack proper financial controls to ensure that money is not stolen and is invested according to the plan that the investors relied upon to invest in the first place.



Cluster of VCC and EIS companies that benefit from the funds raised from conventional investors, hand over treasury payments function to South Africa designated central services provider. This way all investor money is controlled and only allocated to the business plan and strict corporate governance rules.

Figure 27. The Aziza Project LLC treasury management structure



Therefore, the central services contact controls all investee funds. It does not make decisions about their use, apart from the central services contract it signs with the investee company. It does not control the strategy, direction or the management of the company – the directors do that, but it does ensure that money goes where it is supposed to go. Central services will authorise all payments and control bank accounts, at a stroke removing the main impediment inhibiting investment in start-ups.

## Coin buyback phase

Once the investment has been raised over the first four years, the fund will look to distribute back to coin holders by burning the coins in a formulaic manner listed below:

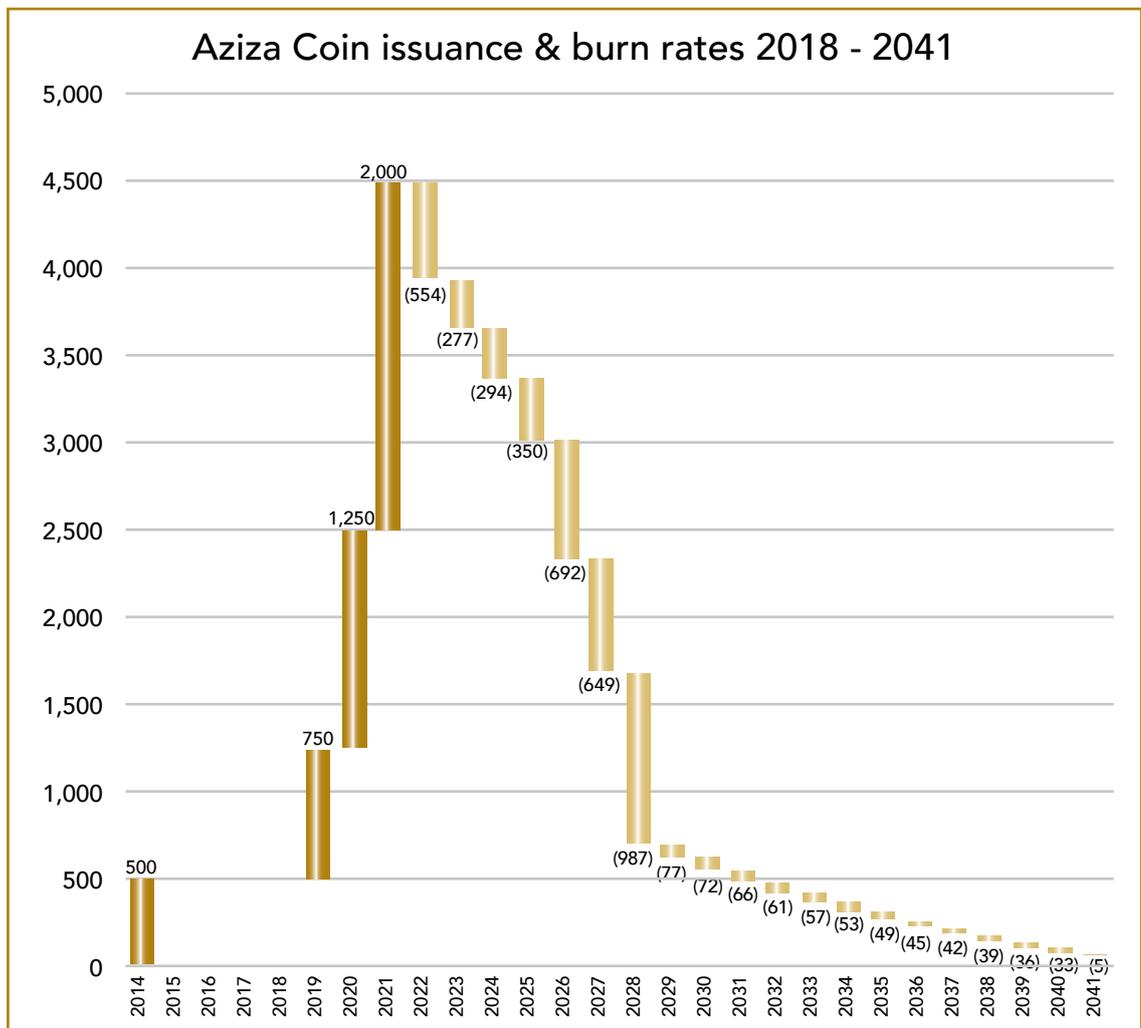


Figure 28. Issuance and forecast burn rate of Aziza Coins

The Aziza Project LLC will assess the portfolio annually on 31 March of each calendar year, and based on the results from this accounting process the following actions are taken by the Founders:



The Founders are not obliged to make a distribution, but should the conditions warrant it, they are likely to, as the only way in which they are reimbursed for their coin management efforts are through coin buy-backs.

This mechanism is used to overcome the problem of a coin facing regulatory uncertainty. If the Foundation automatically had to buy back coins, it would have the same legal rights as those of a financial instrument. At the same time, the coin would have no value unless the owners felt there was a high likelihood of distribution of proceeds.

This mechanism deals with this conundrum in an elegant way. The only way a stakeholder receives benefit from the coin dividends, including the Coin Administrators, is in the situation when the Coin Administrators decide to distribute. As the Coin Administrators have costs, a distribution will happen, liquidity permitting.

Buyback of the coins is based on the following equation:

$$P_n = P_{n-1} (1+B_{azi})$$

*Where*

$P_n$  = net asset value per Aziza Coin post coin buy back

$P_{n-1}$  = net asset value per Aziza Coin post *previous year* coin buy back

$B_{azi}$  = Aziza Coin Buyback Appreciation Factor  
– set at 8% in the model

#### **Equation 1 Aziza Coin buyback formula**

This buyback is subject to the following constraint:

The Net Asset Value per Aziza Coin must always be above the most recent Initial or Secondary Coin Offering Price.

If it falls below the Coin Offering Prices, the coins are burned in the following order:

1. Coins owned by Investee Companies
2. All other coins pro rata

The calculation of the Net Asset Value per Aziza Coin is therefore critical to the integrity of the initiative. The actuarial services therefore underpin the coin's ability to sustain its value, and provide the valuation method for stakes in underlying investee companies, as well as the net present value of the Central Services Contract with each investee company.



## The annual actuarial evaluation

Under the Coin Administration contract, the Coin Administrators of the Aziza Coin are obliged to perform an actuarial evaluation of the value of the investments at the year-end or prior to the ICO or any of the Three Secondary Offers. As the investee companies will not be listed and will face considerable uncertainty, innovation was needed to find a fair way in which to value such investments.

Assets attributable to the coin will fall into four categories

1. Cash – held in several fiat currencies – there is a target minimum being the lessor of €100 million or 2% of asset value after 2021.
2. Holdings in tradeable digital currencies – which are marked-to-market at the date of the annual actuarial valuation.
3. Net present value of cash generated in excess of costs of the shared services contracts.
4. Value of up to 20% stake in investee companies on the following basis:
  - a. Cost for the first two years – except in the case where auditors believe the company is no longer a going concern in which case it is written down to zero.
  - b. The discount factor applied to each cashflow will be based on the Aziza Coin Risk Return Matrix (see below) which in turn will be updated with real data in a self-learning algorithm.



## The aziza coin risk return matrix

The Aziza Coin Risk Return Matrix is the start of a self-learning algorithm based on the portfolio of a target of 1,000 companies in five countries across 70 investment strategies.

The self-learning algorithm starts with two tables:

Risk	Expected Failure rate	Target average exit on success	Average pay-out	IRR based on expected value	Dividend yield (no failures)
1	1%	Revenue stream		5%	5%
2	5%	Revenue stream		6%	7%
3	10%	Revenue stream		8%	9%
4	15%	Revenue stream		9%	11%
5	20%	Revenue stream		11%	14%
6	50%	5.0	2.50	14%	
7	60%	7.5	3.00	17%	
8	70%	12.0	3.60	20%	
9	80%	20.0	4.00	22%	
10	95%	100.0	5.00	26%	

Figure 29. Risk return matrix

The risk-reward rating table guesses failure rates and dividend yields (on a perpetuity basis) for risks 1-5 as the investments tend to be asset-backed. It assumes that asset-backed businesses such as aircraft, farms and hotels are unlikely to achieve an attractive exit. Risks 6-10 assume no dividend and an exit on success.

A second table is added where internal rates of return can be adjusted for any given failure rate. As table 4 shows, a rating of 5 will increase expected internal rate of return by a quarter.

It is necessary to add this box as several asset-backed investments are strategically important to the portfolio but do not generate high returns in themselves. Assets in these categories include:

- art investment – vital for creating local government goodwill,
- hotels – valuable for sales,
- and aviation – helpful to community and government relationships.

Risk reward quality	5	4	3	2	1
Impact on IRR	25%	10%	0%	-10%	-35%

Figure 30. Risk return quality matrix



## Asset allocation

The asset allocation method is different to conventional asset allocations in that it exposes coin holders to ultra-high-risk opportunities, managed in a centralised way, with lower risk asset-backed plays. These enable coin holders to enjoy in specie dividends (see below) by accessing ultra-high-end luxury services such as private aircraft charters, access to game farms, art and investment wine at cost price.

The objective is to blend lower asset backed opportunities with higher risk, high return ones. The central services contract augments returns with lower risk cashflow, while at the same time reducing operational risk, through economies of scale.

The asset allocation scores for the 70 investment strategies are listed in addendum E.

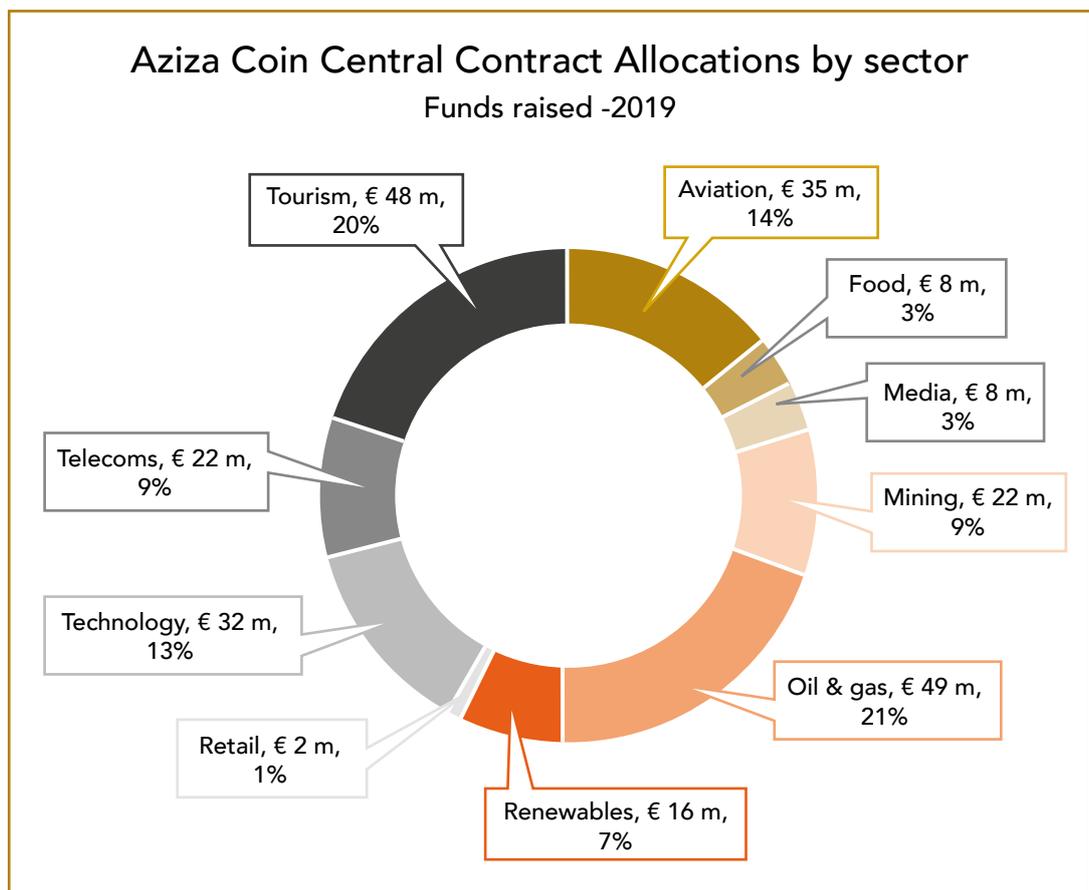


Figure 31. Central contract allocations by sector

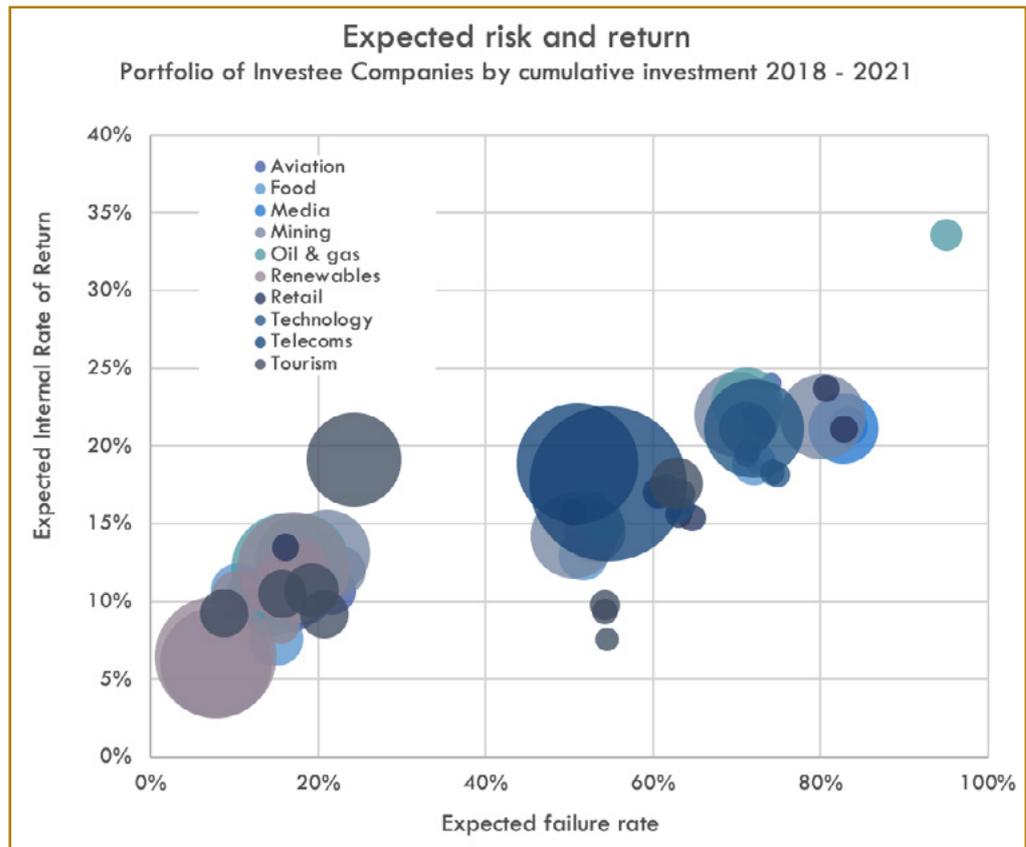


Figure 32. Central contract allocation by niche strategy

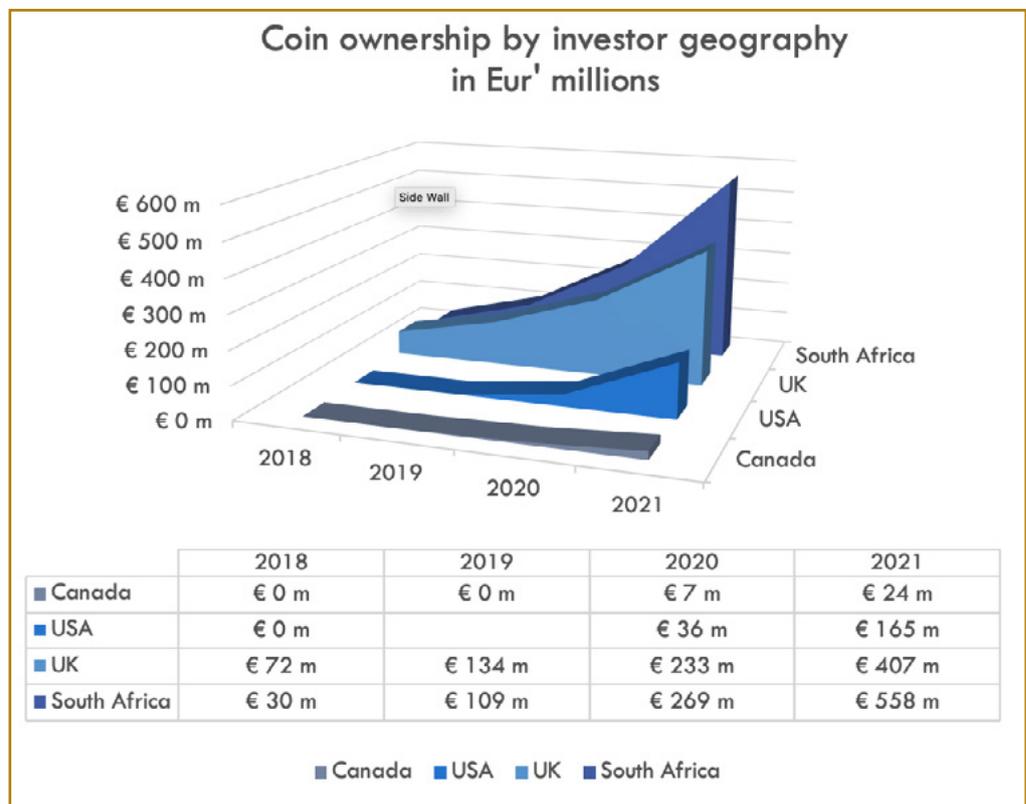


Figure 32. Central contracts by investee company jurisdiction



## 5 Unique selling points

### Securitisation of the central services contract

A seminal element of the Aziza Coin offering is its ability to improve the probability of start-up success through centralising the provision of services to many start-ups. As 70% of all business processes are the same no matter what sector, it makes sense for a cluster of businesses to reap the economies of scale through a single provider of services. The success of a South African start-up would increase from a failure of 85% in the first year to the level of success in the UK, where 58% of businesses succeed in their first five years.

Aziza Coin and the smart contracts behind it, enables paradigm changing ways of structuring work between it and the entrepreneurial firms it supports. It does this by applying the rules of transaction theory, based on the work of Roland Coarse, the Nobel Prize Winning Economist and his seminal paper, The Nature of the Firm. (NB: footnote needed here)

Coarse maintained that the cost of administrating firms is lower than the transaction cost for the same group of people performing the same tasks but in their individual capacity. Firms derive economies of scale by investing in technology to reduce individual cost of transactions.

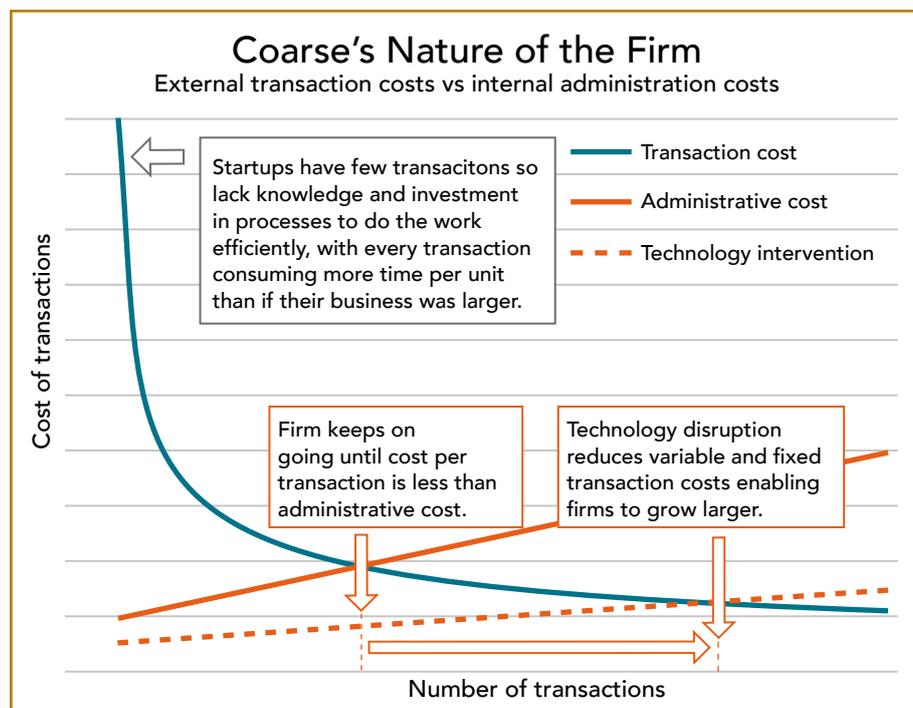


Figure 34. How technology has increased firms' specialisation and reduced internal administration costs relative to external transaction costs, enabling firms to grow larger



This might sound overly theoretical but its real-world implications are dramatic. One of Aziza Coin’s innovations lies in the fact that it can quantify the benefits to entrepreneurs accessing Aziza Coin’s central services using learning curves based on the following simple equation:

$$T_n = T_1 \left( n^{\frac{\ln(LC)}{\ln(2)}} \right)$$

where

$T_n$  = the time consumed to perform a task on the  $n$ th occasion

$T_1$  = the time consumed to perform a task on the 1st occasion

$n$  = the number of times a task is being performed

$LC$  = the learning curve where the time of performing a task decreases at a constant rate as cumulative number of times the task is performed doubles

### Equation 2 The Learning Curve

Figure 35 How Aziza Coin’s Central Services learning curve is expected to compare with that of other tasks. highlights two key observations. The first is how technology has accelerated the learning curve. The learning curve effect was 86% 100 years ago when the Model T was assembled (see black line in Figure 28).

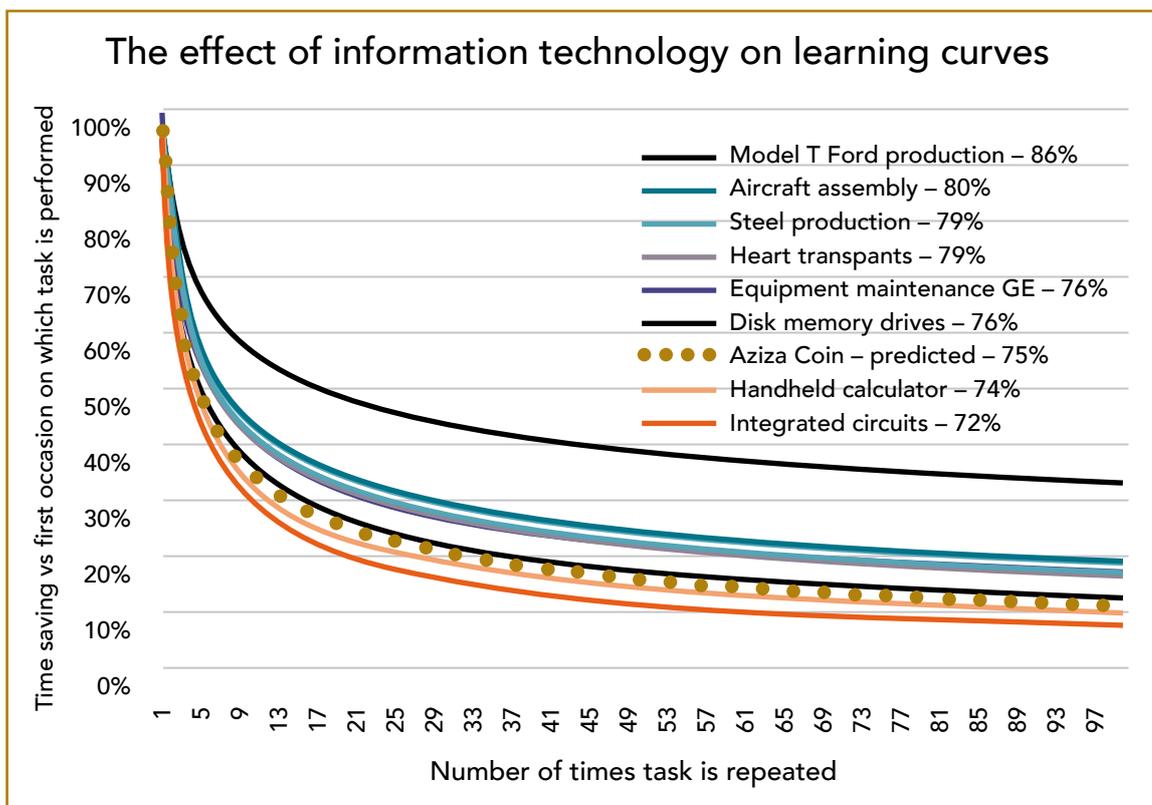


Figure 35. How Aziza Coin’s Central Services learning curve is expected to compare with that of other tasks.



Secondly, that even highly complex, irregular activities such as heart transplants and aircraft building, achieved 80% in 1980. Aziza Coin estimates that skilled repetitive support tasks will achieve a 75% learning curve.<sup>15</sup>

As the tasks are highly repetitive and based on repeatable templates, a 75% learning curve is assumed. This means that by the 100th repeat, cost savings are reduced by 85% and the cost has halved after the fifth repeat.

In Figure 36 below, we highlight four transactions that would be difficult to outsource, and which would require material amounts of start-up management time.

	Number of times task performed based on the Aziza Coin budget	Average time saved vs doing the task once after n times	Time saved by performing the n'th repeat of the task
Equity fundraises	1,000	90%	94%
International work permits	404	86%	92%
Tier 1 Entrepreneur Visa	284	84%	90%
Oil & gas exploration licenses	30	66%	75%
Setting up a VCC	7	37%	52%

Figure 36. Effect of repetition on time saved while performing typical start-up niche tasks

With all these tasks, there is a high risk of failure when attempted by an inexperienced entrepreneur – 100% in the case of equity fund raises in South Africa in 2016. All five tasks are regulated activities, require sophisticated legal skills and a large centralised marketing capacity. The first three deliver cash and the latter two both deliver significant competitive advantage: most entrepreneurs, however, do not have the knowledge to follow these processes, the money to pay for them, nor the time to devote to learning them. In the case of Tier 1 entrepreneur visas, a central services organisation could justify investing into the skills and capacity, as they can be confident of demand from 284 businesses, generating over €50 million in early-stage investment. Work Visas for foreign technical workers give start-ups access to low-cost highly skilled technical workers who have a strong personal stake in the success of their start-up. If the start-up fails, they must go back to their home country as they lose their work visa

15 Sources: James A. Cunningham, "Using the Learning Curve as a Management Tool," IEEE Spectrum (June 1980): 45.

© 1980 IEEE; and David B. Smith and Jan L. Larsson, "The Impact of Learning on Cost: The Case of Heart Transplantation," Hospital and Health Services Administration (spring 1989): 85–97.

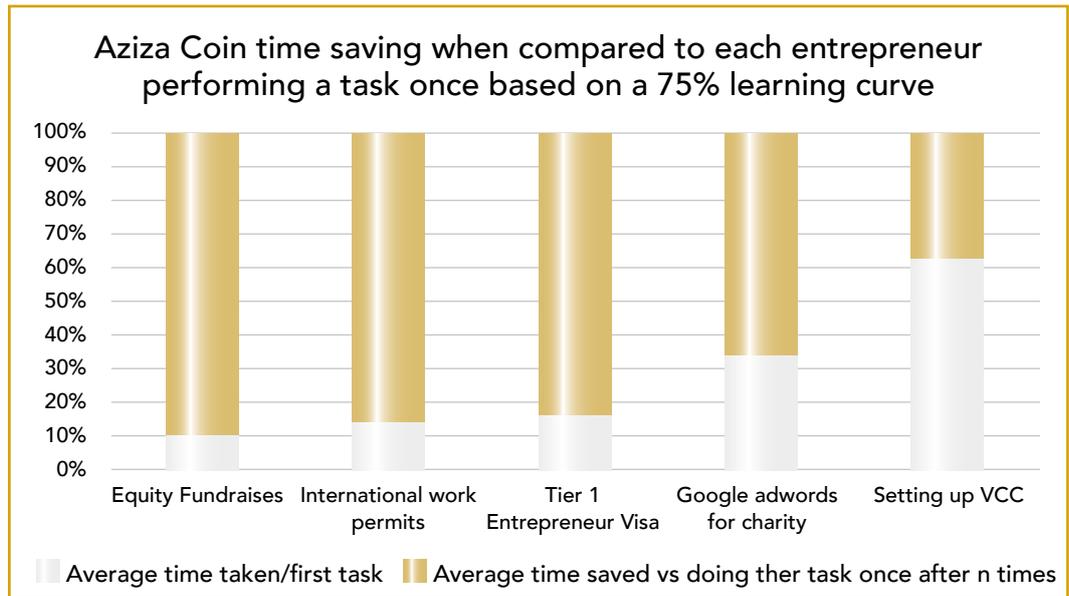


Figure 37. Cost savings as per examples above

The Aziza Project LLC has identified fifty services that are suited to centralisation: The services fit into the following general areas:



Figure 38. Summary of central services offered to investee companies



Aziza Coin seeks to achieve a 2.75% return on all assets managed in the investee companies. This will have the following material impact on Aziza Coin returns – over 70% from 2018's investment is derived from the Central Services Contract. The 50 services are explained in more detail in Addendum E.

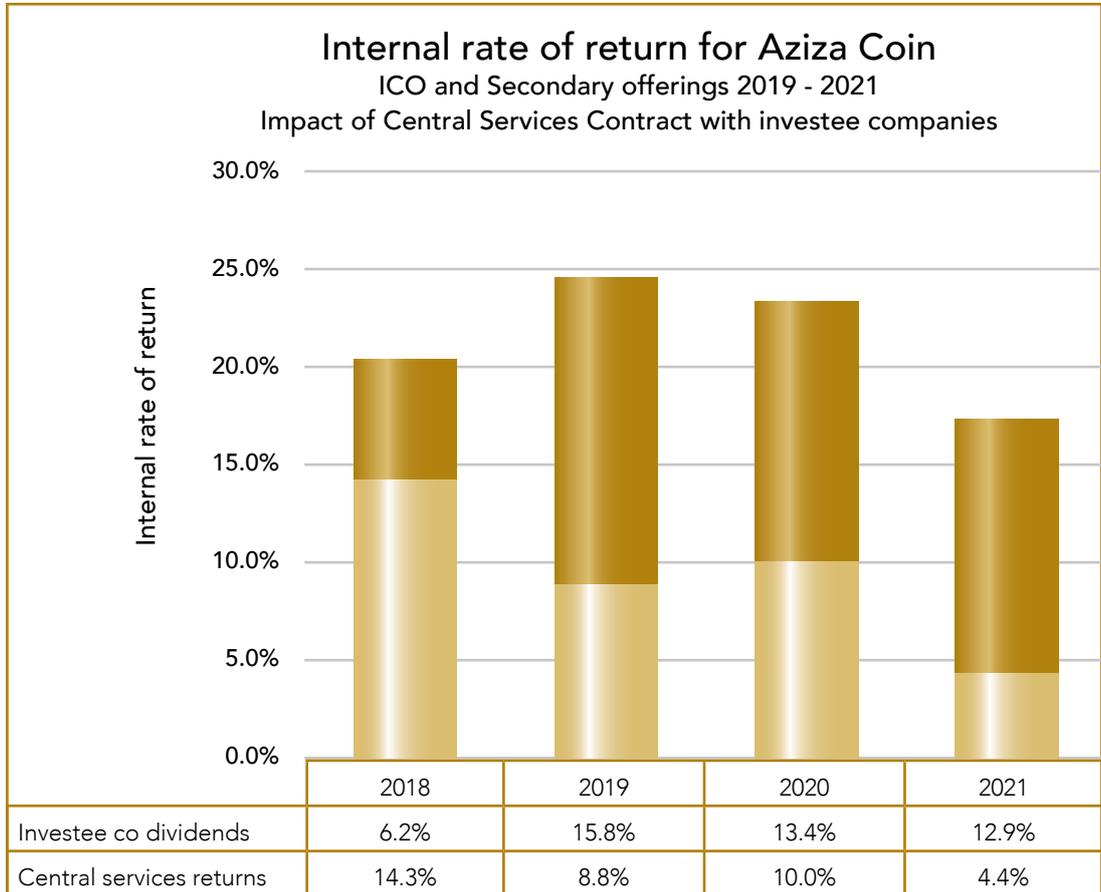


Figure 39. Impact of Central Services on Aziza Coin Internal Rates of Returns

## Aziza coin's "five pillars" investment philosophy

**Sustained competitive advantage with superior risk reward ratios**



Figure 40. The Aziza Coin's five pillars of competitive advantage



AEI has developed a new approach to selecting investee companies, rating them based on the five pillars listed above. These give a combines to deliver a superior risk adjusted returns: a telecoms example illustrates the effectiveness of this approach.

1. **Credible visionary entrepreneur** – the entrepreneur’s hunger to deliver should go beyond financial success; they must have a hunger to leave the world in a better place than they found it. Capacity to work hard, technical brilliance and determination are prerequisites. These traits are all too rare and few entrepreneurs will qualify.
2. **Proven market need** – AEI will either have an internal need or be catering to an obvious external one – South Africa will not have an economy in 2025 if it lacks power – rural South Africans spend 20% of their disposable income on over-priced voice calls. The need for better electricity generation and affordable rural internet is self-evident.
- 3 **Technology** that delivers sustained proprietary competitive advantage and materially higher gross profit margins – examples include reduces Africanopy’s 5-Star network whose the breakeven point from 150 people per km<sup>2</sup> to 4 people, and the exploration methodology that triples the probability of drilling success at one tenth of the cost of traditional methods.
4. **Financial engineering** enables every R1.00 of the SA SME investment to be augmented with R19.00 of tax-subsidised angel investment, research & development tax credits, Enterprise Investment Scheme Funding in the UK, tenders and grants
- 5 **Community involvement and Government Support** where valuable licenses such as mining rights and telecoms spectrum licenses are offered.

Success will result in 50% of South Africans who currently lack internet access getting it at 1/5th of the current price charged in urban areas, €1 billion in free cash and a powerful telecoms backbone to disseminate media to 20 million people.

The Aziza Coin’s investment criteria for the higher risk investments include:

- Rigorous assurance that the companies fulfil the “three pillars” criteria
- Strong ethical foundation on which the business is founded



- Strong technical team with a track record in innovative science
- Operational gearing (profits increase faster than revenue)
- High gross margin and high potential for recurring revenue
- Strong competitive position within their targeted sector with differentiated Intellectual Property (IP).

Asset backed investments will also be targeted for lower risk, more predictable annuity type revenue streams. Assets targeted will play a support role for the higher growth investments. See Section 0 below.

## Globalising african intellectual property

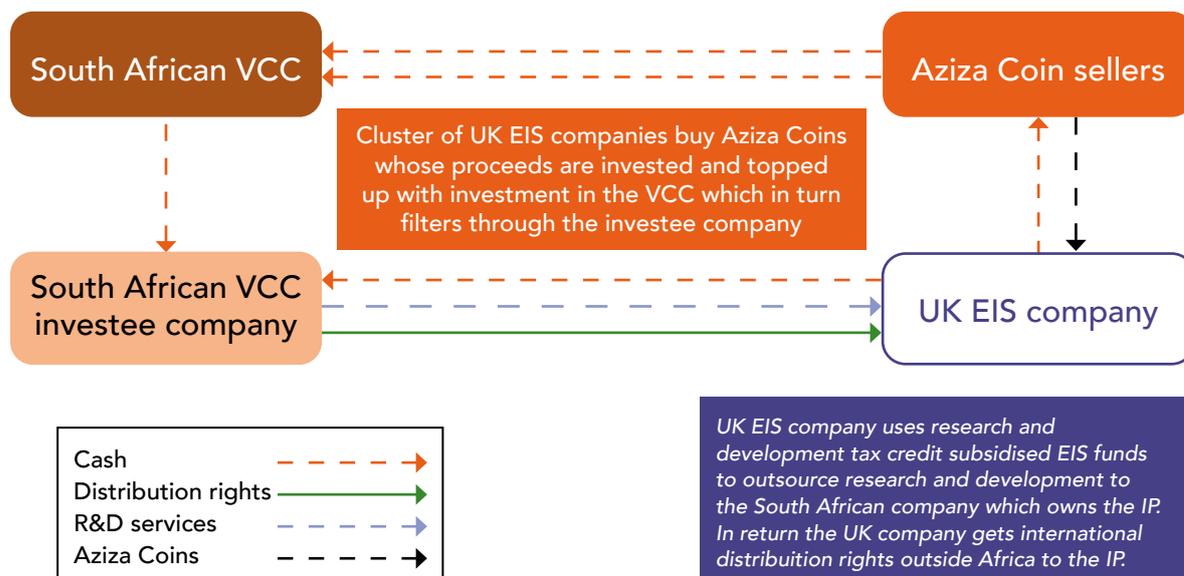


Figure 41. UK/SA technology partnerships to globalise IP created in South Africa

The Aziza Coin in conjunction with the VCCs have developed a unique approach to start-up development where globalisation is embraced at the inception stage. The fund has facilitated symbiotic technology partnership agreements, where the VCC investee company partners with the UK registered company, enabling both companies to increase the chances of the other's success: See below for table explaining how collaborations increases returns.



Aspect	South African VCC company focus	UK company focus
Angel tax breaks	Venture Capital Companies allow up to 45% back. Allows corporates and trusts to get involved	With inheritance tax deferrals, up to 98% capital cover with 70% upfront. Most generous angel investment allowances in the world
Research & development tax credits	Section 11d allows 42% cash back for profitable companies.	Allows 33% cash back for loss making early stage projects with a 225% augmented deduction for profitable SMEs.
Key grants and other support	<ul style="list-style-type: none"> <li>• Special Program for Industrial Innovation</li> <li>• Black Industrialist Scheme</li> <li>• Generous license terms, fintech telecoms. mining, oil &amp; gas</li> </ul>	<ul style="list-style-type: none"> <li>• Horizon 2020 (EU)</li> <li>• FCO £1.3 billion grants program</li> <li>• Innovate UK</li> </ul>
Customer focus	Southern African customers, where there are excellent test market conditions for global roll-out. Government clients through high scoring BEE status.	Focus on Private Equity held assets from City of London, Northern Hemisphere. Note that investor focus is also important in the UK, there are 750,000 South Africans within the M25.
Regional focus	Southern Hemisphere + South East Asia & China	Northern Hemisphere

Figure 42. Benefits of the Aziza Coin global IP partnership model

## Internal price discrimination to improving asset utilisation

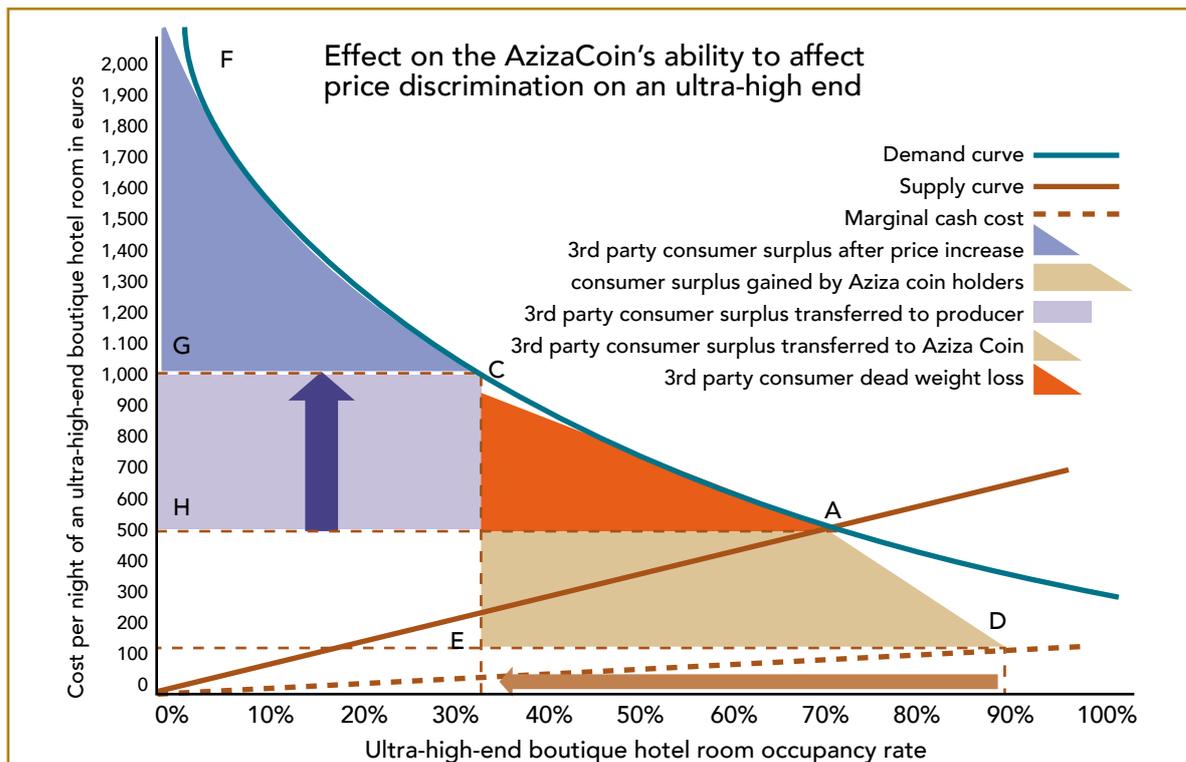


Figure 43. The Aziza Coin Internal Price Discrimination Model



The Aziza Coin increases asset utilisation in the following dramatic way as shown in Figure 43 The Aziza Coin Internal Price Discrimination Model, explained in the table below:

Reference	Significance	Impact
Point A	Conventional demand meets supply under old system	Hotel works hard to get 75% occupancy rates, brand can be compromised by online booking sites taking up to 25% of turnover. An 8% return on capital – estimated in this example to be €500k per room, is a respectable return, giving after tax returns to the owner of €30k per room.
Point C	Doubles price and halves conventional demand	Revenue from existing customers is equal at €136k per room. For internal customer – i.e. investee companies and owner of the Aziza Coin, the rate will be slightly above marginal cash cost of €100 per night, resulting in occupancy increasing to 90%.
Rectangle GCHI	Consumer surplus transferred to producer	The lower occupancy means that consumers benefit less as they occupy the room 38% of time vs 75%.
Quadrilateral IAED	Aziza Coin holders' consumer surplus	Aziza Coin Holders and investee companies right to book hotel rooms at marginal cost. In this example the marginal cost is €100 per room, where it intersects the marginal cost curve. The value of this consumer surplus in the hands of Aziza Coins is highly material.

Figure 44. Analysis of consumer benefit increase through the Aziza Coin

This strategy is suitable for improving utilisation rates and return on investment of ultra-high-end assets such as top-end boutique hotels, wine, art, private jets and helicopters, where utilisation rates tends to be lower and the prestige that comes with scarcity creates new demand. The patient nature of the capital structure – no debt and equity that is tied-in for the first five years – gives managers the ability not to reduce price when sales are slow.

The table below illustrates the effect of the Aziza Coin Price discrimination based on the example in Figure 34.



	Conventional	Aziza Coin
3rd party yield per room per night – €	500	1,000
Occupancy rate	75%	38%
Revenue per room per year – 3rd party – €	136,875	136,875
Aziza Coin Token holders yield per room		100
Aziza Coin occupancy		52%
Revenue per room per year – Aziza Coin – €		18,980
<b>TOTAL REVENUE PER ROOM PER YEAR – €</b>	<b>136,875</b>	<b>155,855</b>
After tax operating costs per room – €	106,875	110,981
Profit after tax per room – €	<b>30,000</b>	<b>40,709</b>
Consumer surplus to Aziza Coin Holders – €		65,700
Capital cost per room – €	500,000	500,000
Average VCC deduction per room – €		(200,000)
After tax capital cost per room – €	<b>500,000</b>	<b>300,000</b>
Return on investment	<b>6%</b>	<b>14%</b>
Value to Aziza Coin holders of in the form of in specie dividends***		<b>22%</b>

Figure 45. Example of how Aziza Coin increases returns on boutique hotels

\*\*\* the in-specie dividends are calculated on the basis that the Aziza Coin users will obtain 38% of the hotel rooms at a €400 discount to what they could have been booked for prior to the price increase. See Quadrilateral IAED in Figure 43 The Aziza Coin Internal Price Discrimination Model. **This small change in financial structure using VCC tax breaks increases net returns from the same asset from 6% to 38% by taking the asset from 75% to 90% utilisation.**

The gains from private aircraft are greater as they tend to be used between 400 hours and 1,000 hours per year – a utilisation rate of 5% to 10%. In addition, 25% of flight hours on charters tend to be dead legs (empty aircraft), which a smart contract will be able to allocate to investee companies and Aziza Coin holders. The combination of art, renewable energy, fine wines, game farms, wine farms and boutique hotels combine to form a formidable capacity to bring on new investors, clients for investee company products, as well as giving a new type of tax efficient time share to Aziza Coin holders.



## Tax ethics and compliance

Cryptocurrency wallet holders tend to view government and regulation as a threat to be avoided. Taxation of the estimated US\$100 billion of cryptocurrency gains is one of the thorniest issues facing the future of these digital assets. The Aziza Coin has taken a proactive approach, by working with SARS in South Africa to gain clarity as to the tax position of gains realized on the sale of its coins in several scenarios as listed below:

Scenario	Tax treatment	Reason
Coins disposed of by South African tax residents after being in digital wallets for 3 years	Gain from digital currencies taxed as <b>capital gain</b>	Investment in digital currency should be treated as an "equity hybrid instrument" as defined in Section 9C of the 8th Schedule of the Income Tax Act: Such instruments held for longer than three years are deemed to be capital in nature regardless of investor intention.
Coins disposed of by South African tax residents after residing in digital wallets in their possession for fewer than 3 years and proceeds reinvested in the same tax year into a VCC, with the VCC investment topped up by a minimum of the value of the tax deduction available under Section 12J	Gain from digital currencies taxed as <b>capital gain as opposed to income tax</b>	Section 9C does not apply, so intention needs to be assessed. Aziza Project LLC asserted to SARS that the act of reinvestment of capital gains and topping up the reinvested gain with another illiquid VCC investment, shows the intention of the investor to accumulate long-term capital gains. As the investor stands to lose the digital currency gains should the start-ups all fail, they will be in the same short-term cashflow position as if they had not entered into both transactions in the first place, so it cannot be their primary intention to be to avoid tax under section 103(2).
Coins disposed of by South African tax residents after being in digital wallets for fewer than 3 years and the proceeds reinvested in the same tax year into a VCC, without the VCC investment being topped up by the tax benefit obtained from a VCC deduction.	Gain from digital currencies taxed as <b>income</b> .	There is a potential for such behaviour to fall fowl of section 103 (2) of the Income Tax Act, as other coins could be specifically created to avoid taxes. Aziza Coin-aligned VCCs commit not to accept investment in these circumstances.
Coins disposed of after being purchased less than three years before the disposal date. Proceeds are not reinvested with a VCC.	Gain from digital currencies taxed as <b>income</b> .	The volatility of the cryptocurrency markets and liquidity of certain coins like BTC means that short-term trading tends to be the dominant intention, unless the trader can prove otherwise. The Aziza Coin will not involve itself in these circumstance -except on the sale of Aziza Coins with the ICO, where a SARS IT3(a) will be issued to investors.
Wallet holder not resident in SA	None	Out of scope, no reporting requirements to SARS.

Figure 46. Digital currency tax scenarios analysed with SARS



The combination of this approach is cashflow generative for SARS, so the tax authorities' interests are aligned with those of investors. In fact, a detailed model constructed by the Aziza Project LLC suggests that for every R1.00 of VCC deductions awarded to investors, the Coin and the underlying activities it makes possible will create an average of R4.22 of increased SARS revenues in 2018 and 2019 cumulatively. This assumes that fundraising targets are achieved in both the UK and SA. See table below:

	VCC tax benefit	Payroll taxes and digital currency taxable capital gains	Capital gains on reported Aziza Coin disposals	Tax effect on year of operation	Future taxes received DCF@ 7.0%	Future value of tax revenues per R1.00 of VCC allowance given
2019/20	(41)	119	44	122	1,083	30.30
2020/21	(1,613)	1,292	1,571	1,250	2,863	3.55
<b>Total</b>	<b>(1,654)</b>	<b>1,412</b>	<b>1,614</b>	<b>1,372</b>	<b>3,946</b>	<b>4.22</b>

Figure 47. Summary estimating forecast tax revenues based on Aziza Coin's activities

## Partnering with Africa New Energies

Aziza Coin's first investee company, Africa New Energies, has applied the five-pillar approach delivering the following competitive advantages.

1. **Community** – share in the project reduced upfront commitments by 95%, diluting shareholders by only 3% to secure the license.
2. **Technology** – ANE developed an algorithm that triples the probability of success at one tenth of the cost of competitors.
3. **Financial engineering** – ANE received grants and tenders augmenting each €1 of shareholder funds raised to €2.20. It was the first international oil and gas exploration project to receive enterprise investment scheme status in the UK, raising €7 million.

In January 2017, the company received an unsolicited bid from a US private equity house valuing it \$5 billion (€425 million), which it rejected. It has since signed a farm-in deal with a service provider for a minority stake at the same valuation.

Africa New Energies directors have indicated that they will support Aziza Coin, by committing to swap 20% of the company's equity for AZI100 million, giving AZI the backing of an asset currently worth



€85 million or €16.9 cents per Aziza Coin. Africa New Energies plans to assist other exploration companies to apply for 25 licenses covering 250,000 km<sup>2</sup> in 2018. The impact of ANE's success is illustrated by their and the coin's interest in the first 22, 000 km<sup>2</sup> in Namibia, where the best scenario on the 1st 8% of the targeted acreage triples the coin net asset value.

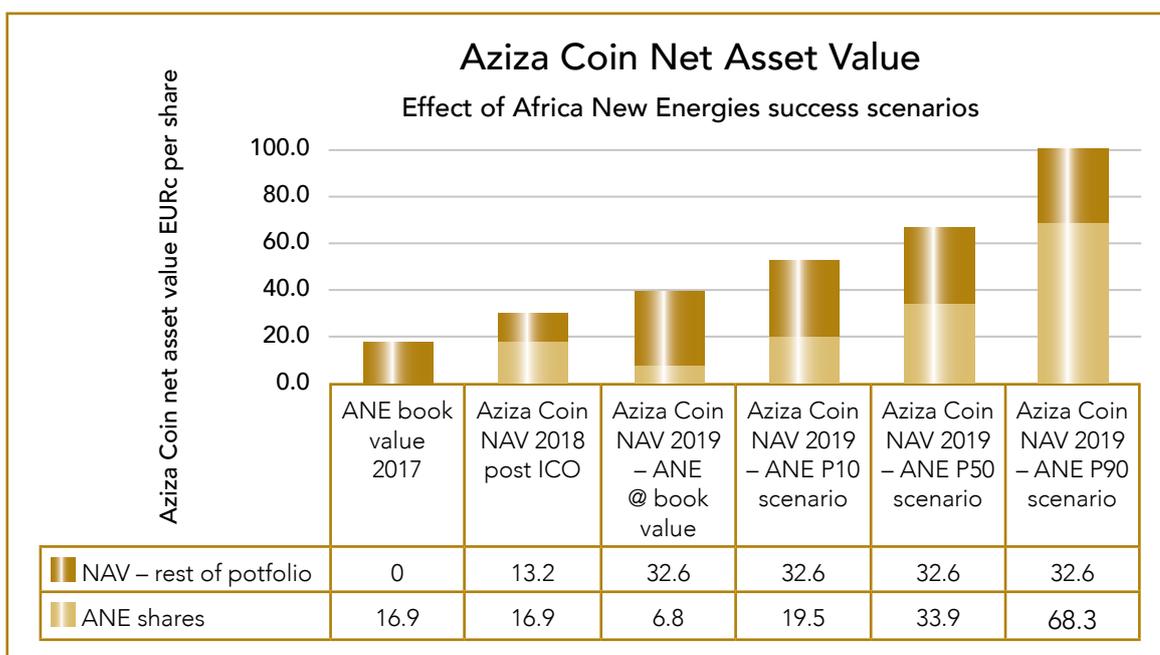


Figure 48. How ANE's success impacts Aziza Coin net asset value

## 6. Coin administration and management

### Coin administrator contract with alumni risk solutions

The Aziza Project LLC will be managed by Alumni Risk Solutions (Pty) Ltd, which has an experienced management team with private equity, tax, consulting and commercial experience, including:

- Originating, evaluating and selecting suitable investment opportunities
- Providing post-investment management services, and
- Sophisticated tax, audit, licensing and tender advice to corporate, municipal and government clients

The Company has entered into a Management Agreement with Alumni Risk Solutions. Alumni Risk Solutions is not incentivised to deliver investment returns for Coin Holders. Shakes Motsilili is the Executive Chairman of Alumni Risk Solutions.



## Payout mechanism

The coin is designed to reduce the unacceptable 36% profit margin that the asset management fund industry charges and to align manager's incentives with those of coin holders. Under the Aziza Coin smart contract, the Founders own 10% of the coin, and can only be paid out in the same way as other coin holders. This way all coin holders' interests are aligned, as the only way administrators get paid is by succeeding in generating returns to defray their administration costs. It also reduces management costs to 10% of returns, where administrators get nothing, if no coin buy-backs are generated.

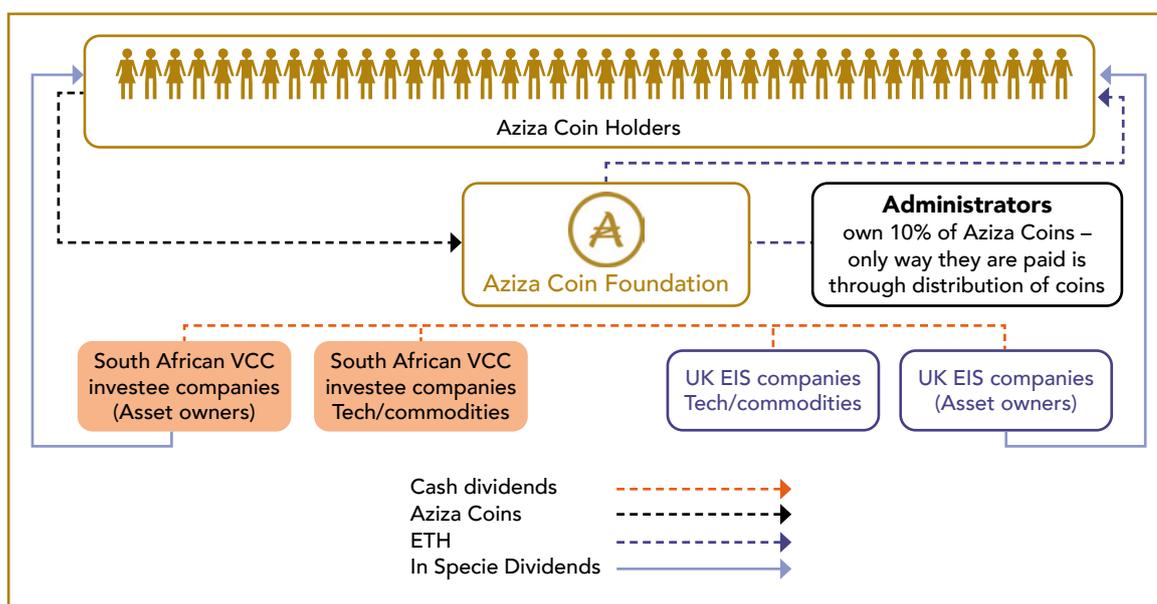


Figure 49. Coin buyback and in specie dividend mechanism

## In specie dividends

One of the most attractive features of the coin lies in the access to assets that coin holders and investee companies would not normally be able to afford, such as ultra-high-end hotel rooms, luxury game camps, private jets and helicopters. The in-specie dividend mechanism is designed to increase demand for Aziza Coins and reduce the desire to sell them. The system is based on the ID100 that airlines use to allocate unsold seats to staff on a standby basis.

As with airline staff, longevity of tenor (duration) is rewarded for Aziza Coin holders where each coin entitles the holder to an increasing in specie dividend, based on longevity of tenor as per the table below:



Length of time coins are in wallet	In specie dividend per coin
Less than 1 year	Zero
Between 1 and 2 years	Services to the value of** 50% of the price paid for the coins
Between 2 and 5 years	Services to the value of** 100% of the price paid for the coins
Between 5 and 10 years	Services to the value of** 150% of the price paid for the coins
Between 10 and 15 years	Services to the value of** 200% of the price paid for the coins
Between 15 and 20 years	Limited only by availability to owner and designated companion

Figure 50. In Specie dividend progressive incentivization rules

\*\* "To the value of" is defined as the difference between the market value of the service and the cost paid by the coin holder.

The in-specie dividend is designed to increase demand for the Aziza Coin at all stages of its existence. The mechanism is best explained by an example:

Our investor Abigail decides to book a top-end hotel room for a weekend with her spouse. The market value of the room is €1,000 per night and the coin holder can access it for €50 per night, the service is deemed to have an in-specie dividend value of €1900 (two nights X market price of €1,000 – €50 paid). This uses up her 50% in specie dividend allowance in year 2. For purposes of the example the Aziza Coin's market value is €1.00 and the coin holder paid €0.30 for her coins.

Then Abigail goes onto the market and buys 50 Aziza Coins for €50, which she offers to the hotel, which can sell the coin to investee companies or to the public to recover their €50 to cover the costs of the room. Once the 50 AZI are sold, Abigail receives 50 Aeriums into her wallet on a one-for-one basis. Aeriums are burned if not used with 1 year of being awarded.

Abigail is allocated the best room that is unsold and subject to buffers, subject to Coin seniority rules. If Abigail books on the same night as a coin holder who has tokens for five years, she ranks behind the 5-year coin holder.

There are several rules to ensure that this arrangement does not negatively impact on the hotel's ability to provide the best service to paying 3rd party guests.

Note that this mechanism is tax efficient – in specie dividends are taxed at the cost to company – which for an unoccupied hotel room, is zero, so there is no tax payable on this dividend.



## The founders of the Aziza Project LLC

### Abridged curriculum vitae

#### **Shakes Motsilili, 40, Chief Executive Officer**

Shakes Motsilili is a co-founder of Africa New Energies, the UK-based Namibian oil and gas exploration company that has pioneered many of the initiatives on which Alumni Energy Investments is based. Mr Motsilili has a strong academic background. He was the first black person to come in the top ten of the South African Science Olympiad, which he did as a matric in 1994. He went on to become the first black person to be in the accelerated Actuarial programme of the University of Pretoria. He joined Momentum Life, where several promotions placed in him the position of head of Actuarial Support for Momentum Administration Services, where he catered to the bespoke investment needs of some of South Africa's most demanding ultra-high net worth clients. In 2011, he became involved with the energy sector through Africa New Energies, and along with the UK-based directors of the company immediately started lobbying for better tax treatment of angel investing in South Africa.

The team's persistent behind-the-scenes lobbying paid off when the Minister of Finance announced a full deduction against income for South African taxpayers into Venture Capital Companies under a revised Section 12J of the Income Tax Act of 1962. Mr Motsilili has been involved in digital currencies and has worked with SARS to bring digital currency profits into the tax net, as well as liaising with top level officials to improve the effectiveness of Section 12J. He has also used his considerable influence to obtain tenders in the telecoms, clean energy, sustainable development and tax administration areas for corporates. He has worked with national, provincial and local governments.

### **Applications for coin holders not yet involved**

Investors who wish to apply should do so by completing an Application Form which will be provided separately from this Restricted Sales Offer Memorandum.

### **Reservation of slots**

The Foundation and Coin Administrators reserve the right to accept or refuse any application(s), either in whole or in part, or to abate any or all application(s) in such manner as they may, in their sole and absolute discretion, determine.



## Results of allocations

Investors will be notified of the allocation of coins within seven days of their application being received.

## Over subscriptions

In the event of any application being rejected or accepted for a lesser number of coins than applied for, any surplus application monies received will be refunded by the custodial account within seven days of the closing date.

In the event of an over subscription, the allocation of coins will be determined by the Foundation in an equitable manner.

## Coinholders not resident in South Africa

This document is focused on the South African investor community, and investors not resident in South Africa should seek professional advice as to the consequences of making an investment in a VCC as they may be subject to tax in other jurisdictions as well as in South Africa. There will be another document that is focused on the UK tax-payer's position.

## Communication with coinholders

The Foundation recognizes the need for good stakeholder communication. As such:

- The Annual Report will be made available through a link to their login to Coin Holders including results of the Annual Actuarial Evaluation by no later than 30th September of each year.
- Updates will be communicated to coin holders via email and updates will be posted in a secure section of the Aziza Coin Website at regular intervals.

## Borrowing powers of Aziza Coin

Not being incorporated, the Aziza Project LLC does not have a mandate to borrow funds.

## Security provided by Aziza Coin

Not being incorporated, the Aziza Project LLC does not have a mandate to provide surety.



## Material contracts

As the Aziza Coin is a digital autonomous organisation, it is simply the sum of several contracts:

The following contracts will be entered into by the Aziza Project LLC – where they are deemed to be material.

1. The Bounty and Fees contracts to the Founders
2. The Closed Period Wallet Holder Management Agreement
3. The Central Services Agreement with UK investee companies
4. The Central Services Agreement with South African investee companies
5. The Central Services Agreement with Sprout Consulting (Pty) Ltd in South Africa
6. The Central Services Agreement with Apollo Innovation Services Ltd in the UK
7. The Aziza Coin Issuance and Disposal Rules
8. The Coin Administration Agreement with Alumni Risk Solutions

These are available in the online due diligence vault whose login is available to any Aziza Coin or Aerium holder, who has provided KYC to the satisfaction of the Coin Administrator.

## Bounty fees

### Capital raising in the closed stage

The costs of raising capital for Aziza Coin's ICO have been agreed with the holder of the Bounty Fee contract at 5% of funds raised (excluding VAT).

### Management fee post ICO stage

The Coin Administrators are awarded 10% of the coins on issuance for which they are compensated for management of the Aziza Project LLC and the Aerium Foundation (whose white paper is out of the scope of this document).

## Litigation statement

There are no legal or arbitration proceedings pending or threatened which may have a material effect on the Foundation's financial position.



## 7. Risk management

### Swot analysis

The Founders have assessed the Aziza Coin's risk position and feel the following are most pertinent.

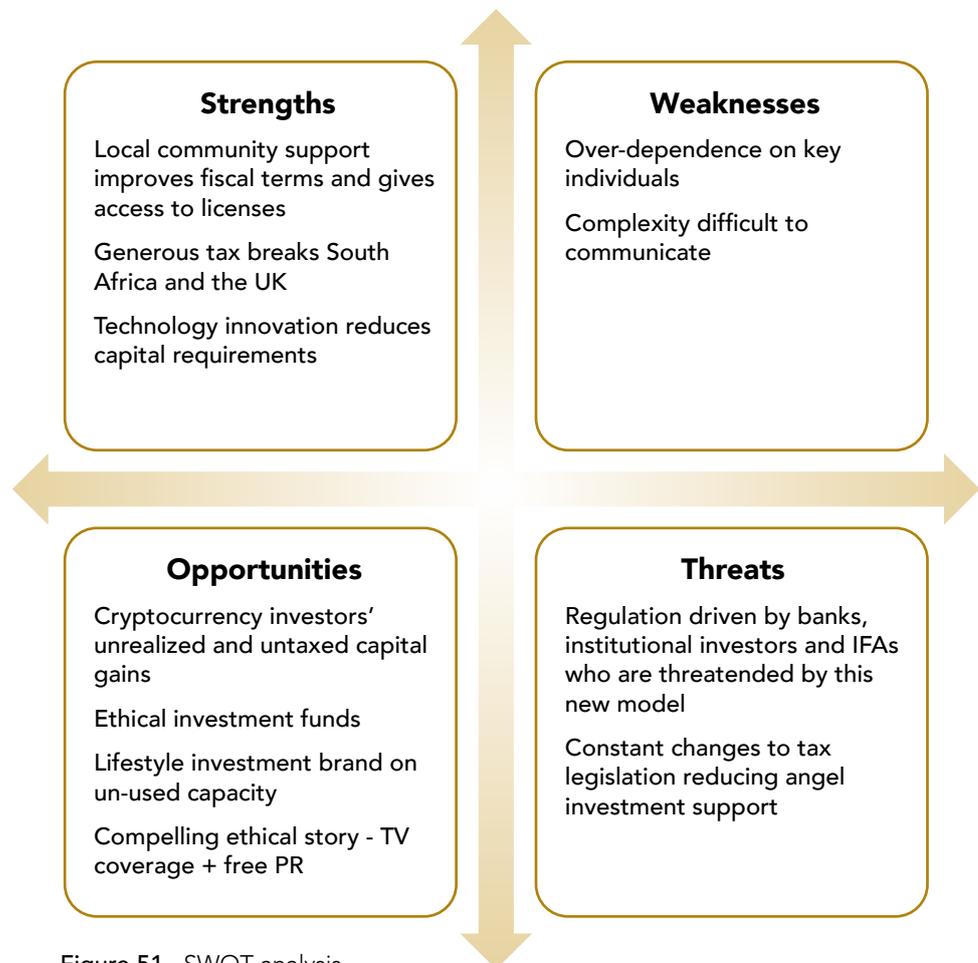


Figure 51. SWOT analysis for Aziza Coin

### Critical success factors

The Aziza Coin model incorporates several other features that mitigate investment risk. These include:

- The use of grants to reduce the capital required;
- The use of research and development tax credits;
- The use of repeatable templates and centralized and shared service procurement processes to reduce costs to individual start-ups;
- An innovative media and thought-leadership programme tailored to each investee company



- The development of a funding crowd for each company to increase business development opportunities
- Creation of sales opportunities and sympathetic customer reference case studies within the Aziza Coin investee company cluster
- The stringent investment criteria applied by the investment committee when testing for the three Aziza Coin criteria
- The multi-stage investment approach, where the top-level stage can raise over \$50 million per year

## **Risk factors of holding, subscribing to and selling coins**

All the information in this Document should be considered by potential coin holders before deciding to sell tokens and reinvest in VCCs and EISs.

### **Certain risks relating to purchase, sale and use of digital tokens**

As noted elsewhere in these Terms, neither Aziza Coins nor Aeriums are being structured or sold as securities or any other form of investment product. Accordingly, none of the information presented in this Document is intended to form the basis for any investment decision, and no specific recommendations are intended. The Aziza Project LLC expressly disclaims all responsibility for any direct or consequential loss or damage of any kind whatsoever arising directly or indirectly from: (i) reliance on any information contained in this document A, (ii) any error, omission or inaccuracy in any such information or (iii) any action resulting from such information.

By purchasing, holding and using Aziza Coins and/or Aerium Tokens, you expressly acknowledge and assume the following risks:

### **Risk of losing access to coins due to loss of private key(s), custodial error or purchaser error**

Currently, the Coin Administrators hold the private keys to all Wallets containing all Aziza Coins. After the ICO, you will be given the private key or allocated a new wallet into which coins can be transferred. A private key, or a combination of private keys, is necessary to control and dispose of any token stored on a blockchain in your digital wallet or vault. Accordingly, loss of requisite private key(s) associated with your digital wallet or vault



storing Aziza Coins, Ethereum or any other digital currency, will result in loss of such Tokens. Moreover, any third party that gains access to such private key(s), including by gaining access to login credentials of a digital wallet or vault service you use, may be able to misappropriate your Aziza Coins. Any errors or malfunctions caused by or otherwise related to the digital wallet or vault you choose to receive and store Aziza Coins, including your own failure to properly maintain or use such digital wallet or vault, may also result in the loss of your Aziza Coins. Additionally, your failure to follow precisely the procedures you will be provided with for buying and receiving Tokens, including, for instance, if you provide the wrong address for receiving Tokens, may result in the loss of your Tokens.

### Risks associated with the ethereum protocol

Because Aziza Coin and the Aerium Coin are based on the Ethereum protocol, any malfunction, breakdown or abandonment of the Ethereum protocol may have a material adverse effect on the Platform or the Tokens. Moreover, advances in cryptography, or technical advances such as the development of quantum computing, could present risks to Coins and the Platform, including the utility of Coins for obtaining Services, by rendering ineffective the cryptographic consensus mechanism that underpins the Ethereum protocol.

### Risk of mining attacks

As with other decentralized cryptographic tokens based on the Ethereum protocol. The Coins are susceptible to attacks by miners while validating transactions on the Ethereum blockchain, including, but not limited to, double-spend attacks, majority mining power attacks, and selfish-mining attacks. Any successful attacks present a risk to the Platform and the Coins, including, but not limited to, accurate execution and recording of transactions involving the Coins.

### Risk of hacking and security weaknesses

The Ethereum platform, like the rest of blockchain is not mature. As the dormant phase ends, and the Coins are recorded on the blockchain, the risk of hacking becomes real. Hackers or other malicious groups or organizations may attempt to interfere with the platform or the Coins in a variety of ways, including, but not limited to, malware attacks, denial of service attacks, consensus-based attacks, Sybil attacks, smurfing and spoofing. Furthermore, because the platform is based on open-source software, there is a risk that a third party may intentionally or unintentionally introduce



weaknesses into the core infrastructure of the platform, which could negatively affect the platform and the Coins, including Aeriums utility for obtaining services.

### Risks associated with markets for aziza coins

The Coins are intended to be used solely on the Platform, and Company will not support or otherwise facilitate any secondary trading or external valuation of Aziza Coins or Aeriums. This restricts the contemplated avenues for using Aziza Coins to gain access to the Entrepreneurship's Initiative, and could therefore create illiquidity risk with respect to Aziza Coins a wallet holder may have in their possession. Even if secondary trading of Aziza Coins is facilitated by third party exchanges, such exchanges may be relatively new and subject to little or no regulatory oversight, making them more susceptible to market-related abuses.

### Risk of uninsured losses

Unlike bank accounts or accounts at some other financial institutions, the Coins are uninsured unless you specifically obtain private insurance to insure them. Thus, in the event of loss or loss of utility value, there is no public insurer, such as the Financial Services Compensation Scheme in the UK, where a depositor is protected up to £85,000 in a regulated bank account.

### Risks associated with uncertain regulations and enforcement actions

While there is not a current need for the Aziza Coin to be regulated in its closed period, the intention is for it to be regulated for the Initial Coin Offering. This could cause delays.

Furthermore, the regulatory status of the Coins and distributed ledger technology is unclear or unsettled in many jurisdictions. It is difficult to predict how or whether regulatory agencies may apply existing regulation with respect to such technology and its applications. It is likewise difficult to predict how or whether legislatures or regulatory agencies may implement changes to law and regulation affecting distributed ledger technology and its applications, including the platform and the Coins. Regulatory actions could negatively impact the platform and the Coins in various ways, including, for purposes of illustration only, through a determination that the Coins become a regulated financial instrument that requires registration or licensing. The Foundation may be required to cease operations in a jurisdiction if regulatory actions, or changes to law or regulation, make it illegal to operate



in such jurisdiction, or commercially undesirable to obtain the necessary regulatory approval(s) to operate in such jurisdiction. At the time of writing, this is the case in China, where no Chinese resident or citizen subject to that country's laws can be an Aziza Coin or Aerium Coin Wallet Holder.

### Risks arising from taxation

The effect of taxation of capital gains arising from disposal of Aziza Coins is settled in South Africa. You must consider the impact that the tax position of the sale, which may result in adverse tax consequences to you, including withholding taxes, income taxes and tax reporting requirements. It is to be noted that the Coin Administrators will be issuing IT3(c) Forms informing SARS of disposal of coins by South African residents.

### Risk of an unfavorable fluctuation of ether and other currency value

The Coin Administrators have devised a trading algorithm to reduce the effect on realisation proceeds using currency pools and realizing sales in smaller trades across a diversified number of UK investee companies. The proceeds of the sale of the ICO will be denominated in ETH, and will, at our discretion, be converted into other cryptographic and fiat currencies to fund the centralised shared services implementation.

If the value of ETH or other currencies fluctuates unfavourably while the sales are being executed, the Foundation team may not be able to fund development of the Centralised Shared Services Offering, or may not be able to develop or maintain the Platform in the manner that it intended.

### Risk of dissolution of the foundation

It is possible that, due to any number of reasons, including, but not limited to, an unfavourable fluctuation in the value of ETH (or other cryptographic and fiat currencies), decreases in the Aziza Coin's utility, the failure of commercial relationships, or intellectual property ownership challenges, organisations around the Foundation may dissolve.

### Risks arising from lack of governance rights

While the structure of the Aziza Coin is designed to reduce the risk inherent in the absence of governance rights, it is because the Coins confer no governance rights of any kind with respect to the Platform that all decisions involving the Platform or Foundation will



be made by Coin Administrators at their sole discretion, including, but not limited to, decisions to discontinue the Platform. These decisions could adversely affect the Platform and the utility of the Coins that you hold, including Aerium's utility for obtaining in specie services and the Aziza Coin's distributions in the case of coin buybacks.

## Unanticipated risks – the unknown

Cryptographic tokens such as the Coins are a new technology. In addition to the risks included in this document there are other risks associated with your purchase, holding and use of the Coins, including those that the Foundation cannot anticipate. Such risks may further materialize as unanticipated variations or combinations of the risks discussed in this document.

Holdings of these coins and potential reinvestment into Venture Capital Companies and Enterprise Investment Schemes are designed to be long-term and illiquid. They are therefore considered to be more suitable for sophisticated investors in a high-income bracket who have the skill and resources to accept the risks inherent in investments of this nature.

Sellers of Coins should carefully consider their financial position and make every effort to familiarise themselves with the consequences of non-attainment by the Coins of the objectives outlined in this document. It may be prudent to seek independent financial advice regarding this transaction.

Prospective investors should be aware that the value of the Coins is by no means certain, will fluctuate and that the restrictions contractually inherent to the investment may result in further gains not being realized.

Changes in legislation relating to Digital Coins, Tax Treatment of conventional investment into investee companies may curtail or adversely affect the ability of the Coins to meet their objectives. There can be no assurances that the Coins will meet its objectives.



## 8 Conclusion

This paper lays out a vision as to how start-ups can be made sufficiently investment ready to attract wide-scale public support. The mechanism used is a digital currency that has three differentiating factors:

1. The central provision of a large portion of the services required to run any business - generating substantial savings which will be shared between the coin and the start-ups supported.
2. The decrease in cost of investment management and aligning the coin managers' interests to those of coin holders
3. The combination of high-risk and low-risk assets, improving utilisation through in specie dividends

The impact on start-up funding could be dramatic, especially in the developing world. The Aziza Coin's first focus market will be that of South Africa, where it plans to deploy €4 billion over a four-year period, in a model that is designed to be replicable to other developing countries.

The coin is forecast not only to deliver superior risk adjusted returns, but also to improve tax revenue collection and to assist the highest potential start-ups to maximize the number of jobs they can create.



# Annexures

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## Addendum A

# Summary of Aziza Coin provision of shared services

Area	Service offering	Strategy	Main benefit	Revenue allocation method	Targeted financial saving vs typical external market cost
Banking & finance	Regulated fundraising in closed stage (4 triggers methods)	Use the 85% coin purchase option for companies to buy the coin and sell it in the ICO, attracting earliest stage investors who use their realized coin gains and tax deductions to get access to early stage investments	"Primes the pump" making the risk in start-ups acceptable to a wider group of crowdfunding investors. This service is the biggest benefit of all, as these companies would simply not be funded without this mechanism	10% of amount raised	Can be as high as 80% - where commissions for regulated fund raising for this type of company can be as high as 50%.
Banking & finance	Grants	Partner with external grant consultant initially and then building/buying capacity for work to be done inhouse	Grant consultants focus on bigger wins as they take risk on their time. Larger firm (in the form of the fact that the Aziza Coin will have many opportunities) ensures focus on projects highlighted	25% of 8% -10% contract win fee	25% of 8% -10% contract win fee, where grant consultants will take 6% - 8%
Banking & finance	Research & development tax credits	Provide capacity at 10% recovery rate on UK companies	UK allows for R&D tax to be paid on	Take 10% of the usual 20% contract fee	Take 10% of the usual 20% contract fee with market leaders such as Forrest Brown
Banking & finance	Tier 1 entrepreneur visa investments	Work with immigration companies focusing on the Chinese, Russian and African markets. Particularly high potential with Chinese Blockchain market	£200k early stage investment + international management capacity.	8% of £200k investment	10% of £200k investment, where if done by outsourced third parties, they usually charge 8% including the Immigration Legal fees and application to the Ministry



Area	Service offering	Strategy	Main benefit	Revenue allocation method	Targeted financial saving vs typical external market cost
Banking & finance	Bespoke insurance	Professional indemnity market is failing	Work with insurance writer directly	20% of premiums	Market premium for providing group economies of is fair as no bank would look at a start-up at this stage of development.
Banking & finance	Creditor terms/ credit risk management	Central guarantees	Improves group cashflow by giving start-up access to credit terms that only larger companies would be able to access	Annualised 2% of time weighted average book value	Market related is fair as no bank would look at a start-up at this stage of development.
Banking & finance	Debtors book management	Low cost factoring service + credit risk management	Factoring would not be possible for start-ups, but will be through use of currency pools. Centralised subscription to credit reporting pools	Annualised 5% of average book value	Market related is fair as no bank would look at a start-up at this stage of development.
Banking & finance	Trade finance	Provided letters of credit through currency pools and Blockchain	Superior service and avoid cumbersome banking processes	1% of deal value	Market related is fair as no bank would look at a start-up at this stage of development.
Banking & finance	Payments and treasury management	GBP, EUS, USD currency pools use internal transfer system to reduce need for fiat currency FX movements	Reduces bank charges on FX costs. Increases liquidity and transaction activity on the cryptocurrency	0.1% of value of currency transactions avoided.	0.1% of value of currency transactions avoided. Cost of forex is between 0.2% and 0.5% so this represents a significant saving.



Area	Service offering	Strategy	Main benefit	Revenue allocation method	Targeted financial saving vs typical external market cost
Financial reporting, tax and accounting	Financial management	Standardised models for forecasting based on standard model created by Coin's Central Services Team.	Better management decisions, reduced liquidity risk. Access to high quality analysts and financial managers on lower rate than externally charged. Model represents a decade of man years of work.	Cost recharged and split for assets under management + 20%	Automation, economies of scale and more skilled management will reduce the cost and management time relative to doing it inhouse or getting a small accountant to do it.
Financial reporting, tax and accounting	Accounting	Standardised online accounting systems integrated with management accounting and forecasting systems	Using Cashflow online systems will reduce costs as journals can be uploaded electronically and reporting integrated into financial models, as well as mapping to the financial management chart of accounts.	Cost recharged and split for assets under management + 20%	See above
Financial reporting, tax and accounting	Secretarial	Companies House/Cipro registrations, share issuances	Reduced risk, increases probability of external investment in future rounds. Reduces risk of legal disputes over shares and ownership. Automation opportunities by working directly with Companies House in UK and Cipro	Cost recharged and split for assets under management + 20%	See above



Area	Service offering	Strategy	Main benefit	Revenue allocation method	Targeted financial saving vs typical external market cost
Financial reporting, tax and accounting	Tax	SEIS, EIS applications, Research and development tax credits and section 11(d) in SA	Needs to be faster than it currently is - by having a dedicated team and being big enough to lobby for changes in HMRC and SARS processes, processing times can be decreased and therefore cash tax credits returned to investors faster. Instils investor confidence and a more skilled centralised team reduces non-compliance risk.	Cost recharged and split for assets under management + 20%	See above
Financial reporting, tax and accounting	Administration	Crowdsourced initiative to adapt 1,800 standard document templates to UK and SA law and onto each investee company's stationery	Sends out professional, competent image. Reduces management time and improves legal position in disputes	Cost recharged and split for assets under management + 20%	See above
Legal	Intellectual property	Use South African IP firms	Use of retired lawyers in return for coins	Cost recharged and split for assets under management + 20%	Able to sell services at 70% cash discounts in return for coins



Area	Service offering	Strategy	Main benefit	Revenue allocation method	Targeted financial saving vs typical external market cost
Legal	Contracts	Standardised templates bank, in house lawyers to adapt	Crowdsource time of retired lawyers in return for coins	Cost recharged and split for assets under management + 20%	Reduced external legal time and avoid lawyer overheads which tend to be 300% of salaries - these costs will only be 20% above fully absorbed costs, which will be lower especially if SA legal skills are used.
Legal	Litigation	Give impression of size and determination, to reduce chances of being sued	Reduces litigation risks in the long term. Opportunity to use the coin to acquire services	Cost recharged and split for assets under management + 20%	Able to sell services at 70% cash discounts in return for coins
People	Coaching	Coaching will be compulsory and outcomes of coaching assessments a key part of follow up funding	Vital to developing entrepreneurs. The most effective risk management investment the coin can make. Difficult to put a number of it.	Cost recharged and split for assets under management + 20%	Target 20% savings vs market
People	Mentorship	Mentorship programs through Crowdfunding	Mentors get coins for helping	Cost recharged and split for assets under management + 20%	Target 20% savings vs market



Area	Service offering	Strategy	Main benefit	Revenue allocation method	Targeted financial saving vs typical external market cost
People	Human resources	Standard employment contracts, ESOPs to incentivise employees in a tax efficient manner - In house HR team to deal with issues as they arise. Contractual assistance to reduce the risk of industrial action in SA	Helping employees to turn taxes paid into VCC investments	Cost recharged and split for assets under management + 20%	Target 20% savings vs market
People	Payroll	Centralised service	No financial benefits but payroll will be adapted to take into account share options, coin trading and bonuses in a tax efficient way for employees	Cost recharged and split for assets under management + 20%	Target 20% savings vs market
People	Recruitment	Use of LinkedIn and networks to find the right skills. Interviewing and vetting of candidates	Reduce risk of knee jerk reaction for incorrect hires. Proper vetting	Cost recharged and split for assets under management + 20%	Target 70% savings vs market



Area	Service offering	Strategy	Main benefit	Revenue allocation method	Targeted financial saving vs typical external market cost
People	International work visa applications	Apply for International Visa award status	Get 5 year loyalty on UK staff recruited from international universities. Effectively similar to an apprenticeship or articles but for five years. Highly motivated to succeed as company failure will result in repatriation. While salaries will be market related, cash costs will not increase fast as employees on this program will be incentivised on success after five years.	Cost recharged and split for assets under management + 20%	This is very significant as it will reduce the cost of highly skilled young technical staff in the UK by 30% - 40%. It becomes a similar model to that of articulated clerks in audit firms during their articulated period.
People	Training	Online training, internal training programs. TouchToLearn interactive software	Group training programs	Cost recharged and split for assets under management + 20%	Target 70% savings vs market
People	Staff events	Larger events where staff of all Coin companies are invited.	Gives staff access to a wider work community	Cost recharged and split for assets under management + 20%	Target 70% savings vs market
People	Staff rewards programs	Based on performance on the job + social media support for the group	Motivation and improves team work	Cost recharged and split for assets under management + 20%	Target 90% savings vs market, as will be using under-utilised assets.



Area	Service offering	Strategy	Main benefit	Revenue allocation method	Targeted financial saving vs typical external market cost
IT and infrastructure	Telecoms	Provide least cost routing services	Enables purchase of wholesale services and makes possible laying of fibre in Cape Town & Durban by giving a anchor client for services	20% cost plus	Significant strategic benefits plus operational savings - were 50% savings are targeted vs market values
IT and infrastructure	Office space	Avoid business rates by using charitable entrepreneurship support spaces such as Wimbletech	Cheaper - good locations reduces travel time	Cost recharged and split for assets under management + 20%	40% savings vs market values in the UK, 20% in South Africa
IT and infrastructure	Cloud based services - Azure tokens	Partner with Microsoft on the Biz program	Gives each business \$120,000 of free tokens	0% - not allowed to profit off this service under licensing rules	100% saving, but no direct benefit to central services
IT and infrastructure	Free software - Microsoft licenses	Free Office, Project and Visio licenses for all Staff	Typically worth \$10,000 per business for licenses	0% - not allowed to profit off this service under licensing rules	100% saving, but no direct benefit to central services
IT and infrastructure	Techsoup software	Non profits can access licenses	Free software, saves costs in buying it.	0% - not allowed to profit off this service under licensing rules	100% saving, but no direct benefit to central services
IT and infrastructure	Project management	Standardised project management IT tools incorporated to strategic financial models and financial systems	Reduces development time and implementation risk	Cost recharged and split for assets under management + 20%	No direct saving, but greatly reduces implementation risk to the group.



Area	Service offering	Strategy	Main benefit	Revenue allocation method	Targeted financial saving vs typical external market cost
IT and infrastructure	Centralised IT security	Best of breed software within budgetary constraints, standardised methods of accessing cloud, password profile use	Economies of scale, better skills and software spread over a larger group of users	Cost recharged and split for assets under management + 20%	No direct saving, but greatly reduces implementation risk to the group especially with regard to crypto-currencies.
IT and infrastructure	Office IT support	Support person split between many companies at each hub	Reduces downtime + improved IT skills, saves largest cost of external call out - travel	Cost recharged and split for assets under management + 20%	Avoids travel component of callout costs and overhead absorption will be smaller, so 50% savings targeted
IT and infrastructure	Web design	Standardised templates for CMS - easily uploaded	Sophisticated reporting, clustering SEO, social media	Cost recharged and split for assets under management + 20% - with recharge on hourly rates based on time sheets	20% mark-up on cost
IT and infrastructure	Graphic design and animations	Graphic designers will work closely with branding	Build up bank of processes, images and animation templates increasing productivity for different clients doing similar promotions.	Cost recharged and split for assets under management + 20% - with recharge on hourly rates based on time sheets	20% mark-up on cost



Area	Service offering	Strategy	Main benefit	Revenue allocation method	Targeted financial saving vs typical external market cost
Brand, marketing and lead generation	Online community management	Building an online space of each company's crowdfunding investors to collaborate	Funding, referrals, advocacy, SEO, social media.	Cost recharged and split for assets under management + 20%	Community referral rewards where Central Services claims - between 2% and 10% of a referral depending on the nature of the sale and the type of business.
Brand, marketing and lead generation	B2B target customer service	Market research through LinkedIn and other social media as well as building a database of potential customers by integrating publicly available data such as Companies House	Pinpoints sales leads for group companies and builds social media relationships. Augment relationships with a referral program through the online community - see above.	Cost recharged and split for assets under management + 20%	Referral fee of 1% in the case of successful sale.
Brand, marketing and lead generation	Thought leadership program	1 minute videos on topical issues to build up thought leadership on social media and in professional circles.	Likely to result in video production costs decreasing by 80% due to full time resource bring available and standardising production templates and lower overheads absorption.	Cost recharged and split for assets under management + 20%	20% mark-up on cost



Area	Service offering	Strategy	Main benefit	Revenue allocation method	Targeted financial saving vs typical external market cost
Brand, marketing and lead generation	Access to SEO cluster strategy	SEO benefits from association with 30 charities where up to \$15 million of free Facebook and Google AdWords Pay Per Click will be free	Reflected benefit from pay per click to the Charities websites which will be in the Charities Cluster. The model estimates that almost 1 million leads will be generated through the charities SEO strategy, which will deliver tens of millions of new investment.	Cost recharged and split for assets under management + 20% - with recharge on hourly rates based on time sheets	5% commission on investment raised through the Charities leads.
Brand, marketing and lead generation	Event management	Centralised event management procurement process	Build up centralised Black Book of influencers. Use Charities to create new relationships in Gala Events. Encourage staff to get involved improving attendance at the events.	Recharge + 20%	20% mark-up on cost
Brand, marketing and lead generation	Public Relations	Centralised event management procurement process	Access to free above the line media	Cost recharged and split for assets under management + 20% - with recharge on hourly rates based on time sheets	20% mark-up on cost or 10% if external



Area	Service offering	Strategy	Main benefit	Revenue allocation method	Targeted financial saving vs typical external market cost
Sales	Internal reference sites	Access to reference sites is one of the hardest problems a high potential technology customer faces. The first customer is always the most difficult to acquire.	Vital for technology projects proving their effectiveness with a sympatric first client, who will work with supplier to quantify benefit using six sigma principles into a publishable case study which will be used for marketing elsewhere within and outside the Aziza Coin Cluster.	None	None
Sales	Group dog food rollout	See above, extends customers.	See above - this is particularly valuable for Blockchain applications getting wider adoption before going to external third parties. Reduces risk of product failure and increases customer confidence as they can see a track record of effectiveness.	Discount negotiated on an individual basis depending on product profitability, where a 5% overhead absorption will be targeted to cover overheads of Central Services	Average of 5% of cost targeted
Sales	Blockchain driven smart contract efficiencies	Use blockchain applications developed by investee companies to improve processes and reduce intra company transactional costs and time	Benefits to investee companies are more indirect, except for those Blockchain companies that are selling "Dog Food". See below.	Cost recharged and split for assets under management + 20%	No direct cost benefits



Area	Service offering	Strategy	Main benefit	Revenue allocation method	Targeted financial saving vs typical external market cost
Sales	Centralised CRM	Economies of scale by have a group CRM allowing all cross pollination to be accounted for correctly	Significant saves are derived from SAAS packages that can be accessed in bulk.	Cost recharged and split for assets under management + 20%	10% of market cost of internal company customers.
Sales	Access to deeply discounted prestige assets in the group for marketing	Use of private aircraft, game farms, wine farms and boutique hotels.	Effective use of dead legs of private aircraft. Makes for higher utilisation rates of assets. Affordable access to prestige assets increases sales conversion rates for big ticket and complex sales.	Cost to asset owning company + 20%, with a minimum of 10% of market value.	10% of market value
Sales	Tenders	Access to group contacts, provision of performance bonds with treasury pool funding, group guarantees.	Enables smaller more innovative technology companies to exploit BEE credentials to compete with larger more established companies to get government work. Particularly effective in South Africa.	5% of tender value targeted across all tenders	Target 5% of tender value as a weighted average
Sales	Cross pollination of sales	Companies are incentivised to share customers and recommend other group company offerings to existing customers	Finding a new customer takes 11 times the effort of selling to an existing one. Cross pollination enables group companies to use their existing sales relationships to receive extra income from other products in the group.	5% of sales value targeted across all tenders	Target 5% of tender value as a weighted average



Area	Service offering	Strategy	Main benefit	Revenue allocation method	Targeted financial saving vs typical external market cost
Sales	Call centres	Will start in Durban and focus on investment raising, following on to generating sales. Exploit time-zones by getting call centres to run at least two eight hour shifts. Will be particularly effective when they are operating in the US market, where 24 hour three weekday shift rotation is possible.	Economies of scale, software bespoke towards needs of the group. Teams dedicated the team campaigns. Commissions will ensure highly skilled and motivated staff. Standardised contracts, scripts and existing customer lists will reduce management time and team training, while increasing conversion rates. Call centres are perhaps the most underrated sales tool available and will be vital to transforming the success rates of start-ups. Utilisation rates can be improved by doing generalised marketing campaigns when no internal client needs them to sell. For the first four years, the call centre seats will be needed for selling investment.	Daily cost per seat + 20% + commission on sales if in house. Daily cost per seat + 10% if outsourced.	No competition, so not applicable



## Addendum B

# How blockchain will radically transform the economy

How Blockchain will Radically Transform the Economy

Bettina Warburg

[https://www.ted.com/talks/bettina\\_warburg\\_how\\_the\\_blockchain\\_will\\_radically\\_transform\\_the\\_economy#t-152659](https://www.ted.com/talks/bettina_warburg_how_the_blockchain_will_radically_transform_the_economy#t-152659)

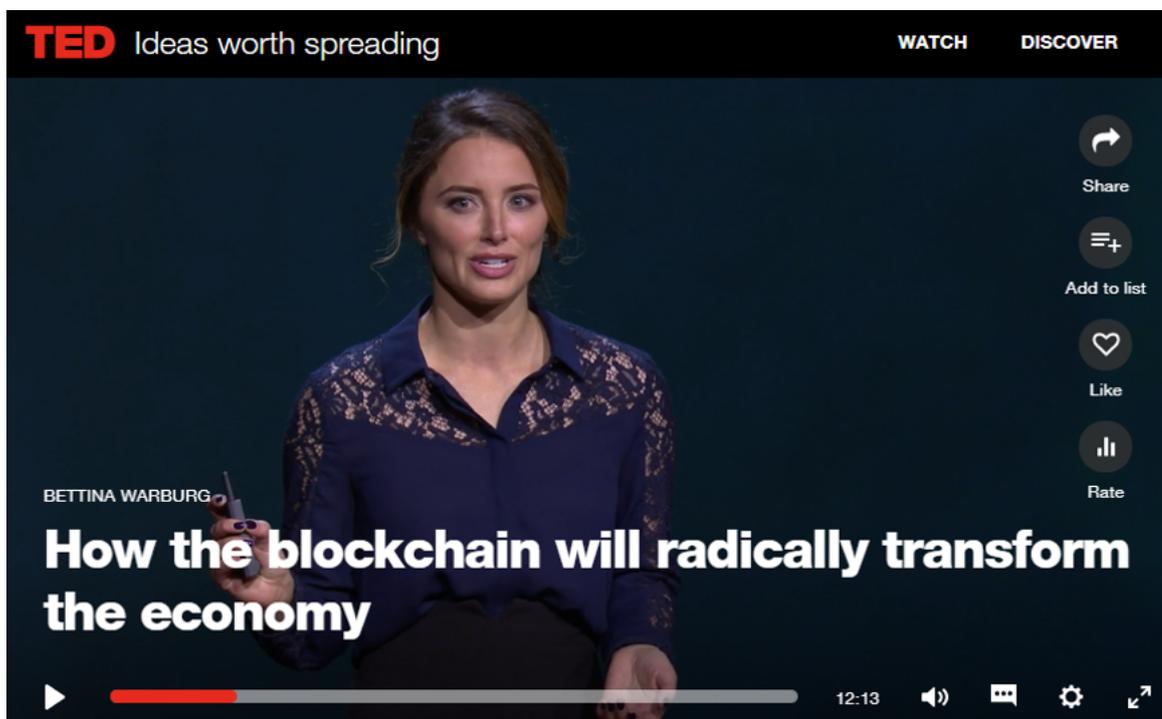


Figure 52. Bettina Warburg giving a TED talk

Economists have been exploring people's behaviour for hundreds of years: how we make decisions, how we act individually or in groups, how we exchange value. They have studied the institutions that facilitate our trade, like legal systems, corporations, market places. There is a new technological institution that will fundamentally change how we will exchange value, and it is called the blockchain. Now that is a pretty bold statement, but if you take nothing else away from this talk, I want you to remember that while blockchain technology is relatively new, it is also the continuation of a very human story, and the story is this. As humans, we find ways to lower uncertainty about one another, so that we can exchange value. Now, one of the first people to really explore the idea of institutions a tool in economics to lower our uncertainties about one another and can do better trade was the



Nobel economist Douglas North. He passed away at the end of 2015, but North pioneered what was called “New institutional economics”. And what he meant by institutions was that they were just formal rules like a constitution and informal constraints like bribery. These institutions are really the grease that allow of economic wheels to function and we can see this play out over the course of human history. If we think back to when we were hunter gatherer economies, we just traded within our village structure. We had some information constraints in place, but we enforced all our trade with violence or social repercussions. As our societies grew more complex, and our trade routes more distant, we built up more formal institutions, institutions like banks and currencies, governments and corporations. These institutions helped us manage our trade as the uncertainty and complexity grew and our personal control was much lower. Eventually with the internet we put these same institutions online.

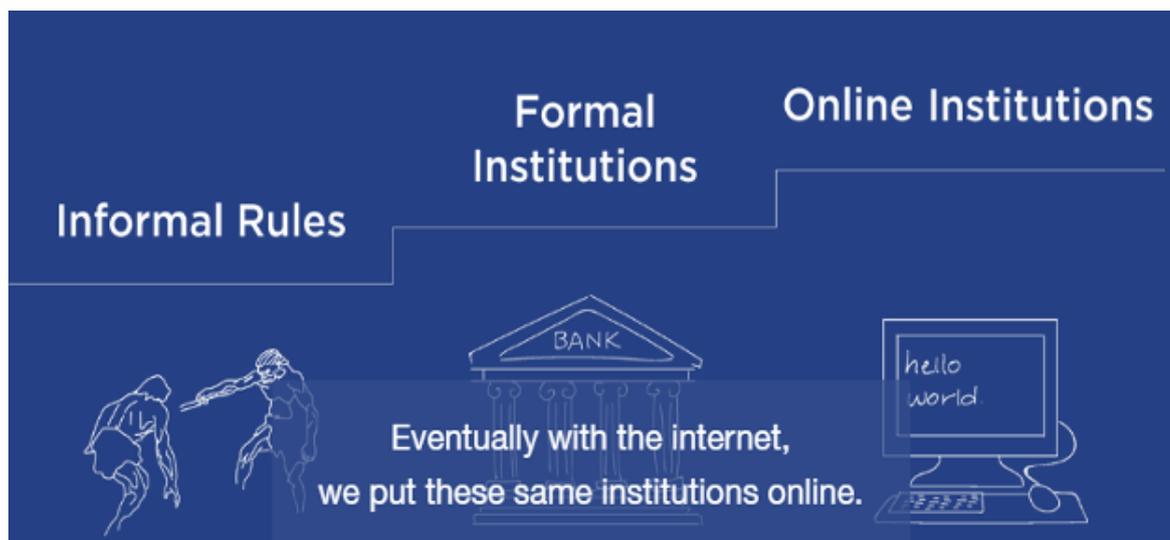


Figure 53. The evolution of transaction technology

We built platform market places like Amazon, Alibaba and eBay, just faster institutions that act as middlemen to facilitate human economic activity. As Douglas North saw it, institutions are a tool to lower uncertainty so that we can connect and exchange all kinds of value in society. And I believe that we are now entering a further radical evolution of how we interact and trade, because for the first time, we can lower uncertainty not just with political and economic institutions like our banks, corporations and governments, but we can do it with technology alone.

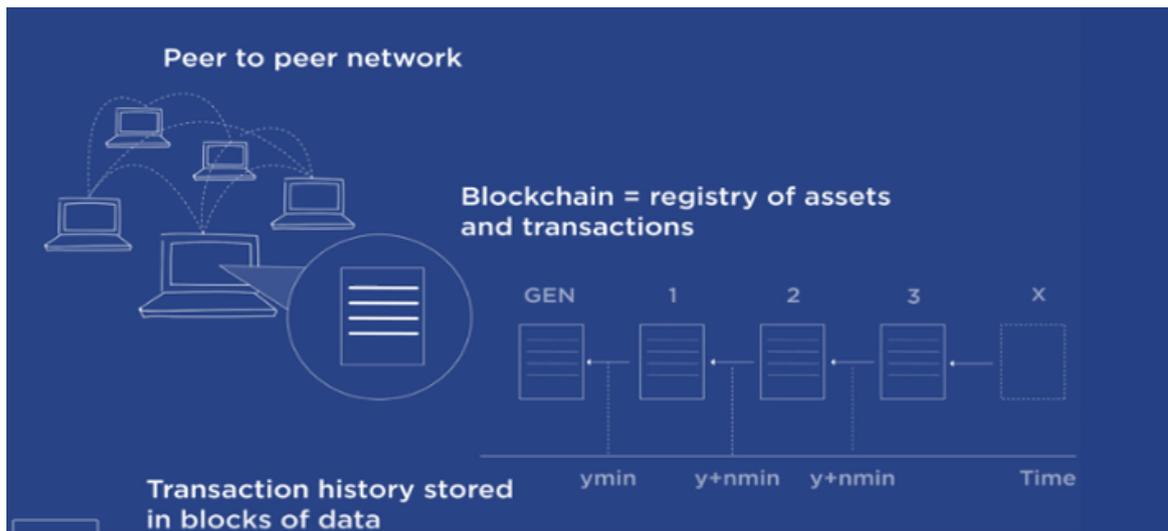


Figure 54. Blockchain schematic

So, what is the Blockchain? Blockchain technology is a decentralised database that stores a registry of assets and transactions across a peer to peer network. It is a public registry of who owns what and who transacts what. The transactions are secured through cryptography and over time, that transaction history gets locked in blocks of data that are cryptographically linked together and secured. This creates an immutable, unforgeable record of all the transactions across this network. This record is replicated on every computer that uses the network. It is not an app, it is not a company, I think that it is closest in description to something like Wikipedia. We can see everything on Wikipedia. It is a composite view that is constantly being changed and updated. We can also track those changes over time on Wikipedia and we can create our own Wiki's, because at their core they are just a data infrastructure. On Wikipedia it is an open platform that stores text and images and the changes to that data over time. On the blockchain, you can think of it as an open infrastructure that stores many kinds of assets. It stores the history of custodianship, ownership and location for assets like digital currencies like Bitcoin. Other digital assets like a title of ownership of IP. It could be a certificate, a contract, real world objects, even personal identifiable information. There are of course other technical details to the Blockchain, but at its core that is how it works, it is this public registry that stores transactions in a network and it is replicated so that it is very secure and hard to tamper with. This brings me to my point of how blockchains lower uncertainty, and how they therefore promise to transform our economic systems in radical ways. So, uncertainty is kind of a big term in economics. But I want to go through three forms of it that we face in almost all our everyday transactions where Blockchains can play



a role. We face uncertainties in not knowing who we are dealing with, not having visibility of a transaction and not having recourse if things go wrong.

So, let's take the first example of not knowing who we are dealing with. Say I want to buy a used smartphone on eBay. The first thing I am going to do is to look up who I am buying from. Are they a power user? Do they have great reviews or ratings or do they have no profile at all? Reviews ratings checkmarks: These are the attestations about our identities that we coupled together today and to lower uncertainty about who we are dealing with, But the problem is that they are very fragmented. Think about how many profiles you have. Blockchains allow us to create an open global platform on which to store any attestation about any individual from any source. This allows us to create a user-controlled portable identity. More than a profile, it means that you can selectively reveal the different attributes about you that help facilitate trade or interaction. For instance, that a government issued you with an ID or that you are over 21 by revealing the cryptographic proof that these details exist and are signed off on. Having this kind of portable identity around the physical world and the digital world means that we can do all kinds of human trade in a totally new way.

So, I have talked about how blockchains can lower uncertainty in who we are dealing with. The second uncertainty we often face is not having transparency in our interactions

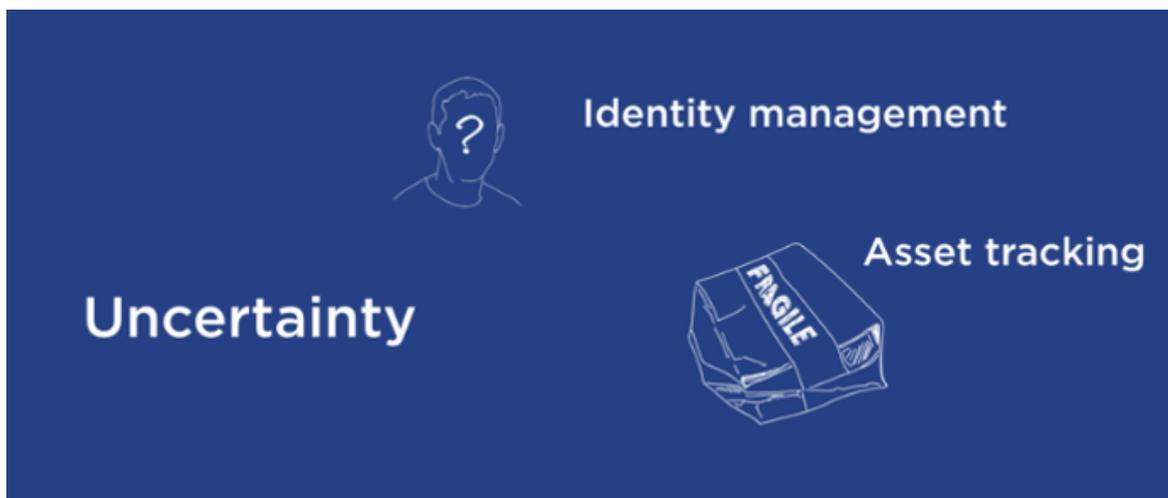


Figure 55. How blockchain reduces uncertainty

Say you are going to send me that smartphone by mail. I want some degree of transparency. I want to know that the product I bought was the same one that arrives in the mail and there is some record of how it got to me. This is true for not just electronics like smartphones but for many kinds of goods and data, things like medicine, luxury goods, any kind of product that we don't want



tampering with. The problem with many companies, especially those that produce something complicated like a smartphone, is that they are managing all these different vendors across a horizontal supply chain. These people that go into making a product, they don't have the same database, they don't use the same infrastructure and so it becomes hard to see transparently how a product evolves over time, Using the blockchain, we can create a shared reality across non-trusting entities. By this I mean that these nodes in the network do not need to know each other or trust each other because they each can monitor and validate the chain for themselves. Think back to Wikipedia. It is a shared database and even though it has multiple readers and multiple writers at the same time, it has one single truth. So, we can create that using blockchains. We can create a decentralised database that has the same efficiency as a monopoly without creating that central authority. So, these vendors, all sorts of companies can interact with the same database without trusting each other. It means that for consumers that we can have a lot more transparency. As a real-world object travels along, we can see its digital certificate or token move on the blockchain adding value as it goes. This is a whole new world in terms of our visibility.

So, I have talked about how blockchain can lower our uncertainties about identity and how they change what we mean about transparency in long distances and complex trades like a supply chain. The last uncertainty that we often face and it is one of the most open-ended, and it is reneging.

What if you don't send me the smartphone? Can I get my money back? Blockchains allow us to write code, binding contracts, between individuals and guarantee that those contracts will bear out without a 3rd party enforcer. So, if we look at the smartphone example, you could think about escrow. You are financing that phone, but you don't need to release the funds until you can verify that all the conditions have been met. You've got the phone. I think that this is one of the most exciting ways that blockchains lower our uncertainties, because it means to some degree that we can collapse institutions and their enforcement. It means a lot of human economic activity can get collateralized and automated, and push a lot of human intervention to the edges, the places where information moves from the real world to the blockchain.

I think what would probably floor Douglas North about this use of technology is that the very thing that makes it work, the very thing that keeps the blockchain secure and verified is our mutual distrust. So rather than all our uncertainties slowing us down and requiring institutions like banks, governments and corporations, we



can harness all that collective uncertainty and use it to collaborate more, faster and more openly.

Now I don't want you to get the impression that the blockchain is the solution to everything, even though the media has said that it will end world poverty, solve the counterfeit drug problem and potentially save the rain forests, The truth is that this technology is in its infancy and we are going to need to see a lot of experiments take place and probably fail before we truly understand all the use cases for our economy, But there are tons of people working on this from financial institutions, to technology companies, start-ups and universities. And one of the reasons is that it is not just an economic evolution. It is also an innovation in computer science. Blockchains give us the technological capability of creating a record of human exchange, of exchange of currency, of all kinds of physical and digital assets, even of our own personal attributes, in a totally new way. So, in some ways, they become a technological institution that has a lot of the benefits of the traditional institutions we are used to in society. But it does this in a decentralised way. It does this by converting a lot of our uncertainties into certainties. So, I think we need to start preparing ourselves because we are about to face a world where distributed autonomous institutions have a significant role.

Thank you.



## Addendum C

### Risk/reward profile

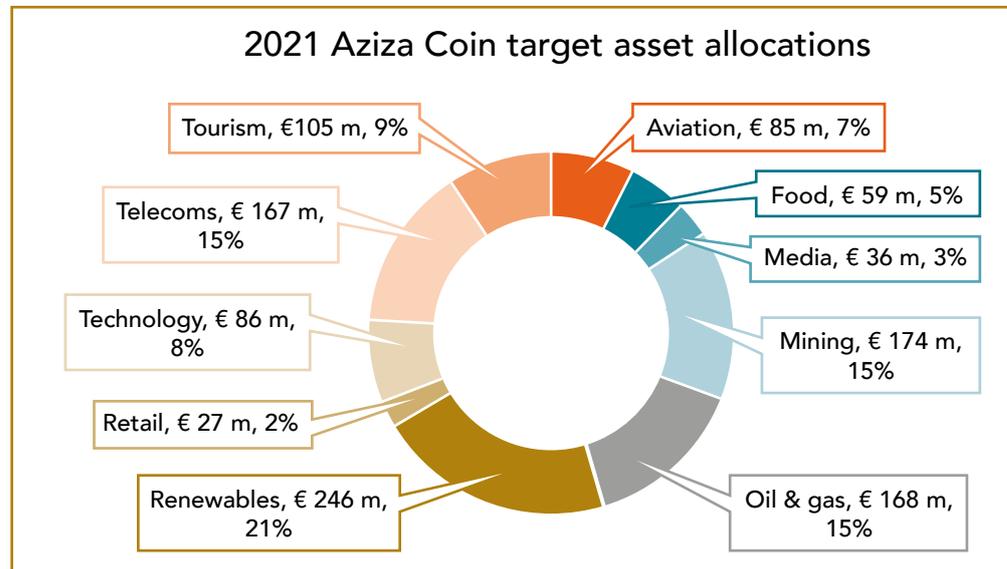


Figure 56. The Aziza Coin Sector Diversification Target by 2021

The Coins seek to create a diversified portfolio of alternative investments, combining low-risk asset-backed companies, where it allows other Coin investee companies and their shareholders to access spare capacity in those assets to assist ultra-high potential start-ups to achieve superior risk adjusted returns. To achieve these higher potential returns, these companies need to take the highest risks – by backing concept stage start-ups. In the most extreme case – Africa New Energies being a case in point, it plans to invest in pre-revenue concept stage start-ups which have the potential to return to seed capital providers one hundreds of times or more of the initial investment on exit. It should be emphasized that these investments are ultra-high risk and have a high probability of failure, so the risk is spread.

An investment in any of the VCCs should be considered as a long-term investment, not least because section 12J requires that investors remain in the investment for a minimum of five years. The investment into any VCC is not liquid and there will be no market for the shares for the foreseeable future.



## Addendum D

# The venture capital sector in South Africa

While the latest South African Venture Capital Association (SAVCA) report on Venture Capital (VC), indicates that the South African VC industry is experiencing significant growth with an encouraging rise in the number of new fund Administrative Managers, exits and deal flow, South Africa has failed dismally in funding concept-stage technology start-ups and greenfield exploration projects that Aziza Coin's Foundation plans to assist with.

The SAVCA 2015 VC Survey suggests that South African VC industry now represents over R2bn in assets under management, with healthy confidence levels that are commensurate with reported rising deal activity, a pleasing exits record and a significant increase in VC fund Administrative Managers and industry professionals.

These findings are encapsulated in the SAVCA 2015 VC Survey, which covers VC-type transactions that took place between January 2011 and July 2015, and follow two previous VC studies produced by the Southern African Venture Capital and Private Equity Association (SAVCA), in 2010 and 2012.

The latest survey reveals that in the 2011-2015 period, 21 public and private VC fund Administrative Managers and angel investors completed 168 new deals amounting to a total value of R865 million. As at July 2015, total VC assets under management were valued at R1.87 billion, comprising 187 deals.

These optimistic views mask damning evidence as to the extent the market has failed start-ups in South Africa. In a world of downsizing, automation and business process outsourcing, a job for life is no longer a realistic prospect for any employee. Large businesses, governments and the NGO sector around the world are losing jobs, causing grinding poverty, extremism and social unrest. Entrepreneurs are alone in standing up to this tsunami of employment destruction: In Uganda, one of the world's poorest economies, 65% of all jobs were created by start-ups. In Norway, which has a \$1 trillion sovereign wealth fund to share between its 5 million citizens, 57% of all new jobs were created by Start-ups. South Africa stands in between these two extremes with 62% of jobs created by its start-ups. When one includes small and medium sized businesses, over 100% of net jobs created in the USA, 85% of



net jobs created in the UK and an estimated 90% of net new jobs in South Africa were created by SMEs.

South Africa desperately needs jobs to alleviate its poverty, and it is universally accepted that the private not the public sector needs to create them. In the latest Quarterly Labour Force Survey issued by Statistics South Africa, there are 37 million adults in the country and 12 million or 36% of the potential workforce are unemployed – one of the highest unemployment rates in the developing world.<sup>16</sup>

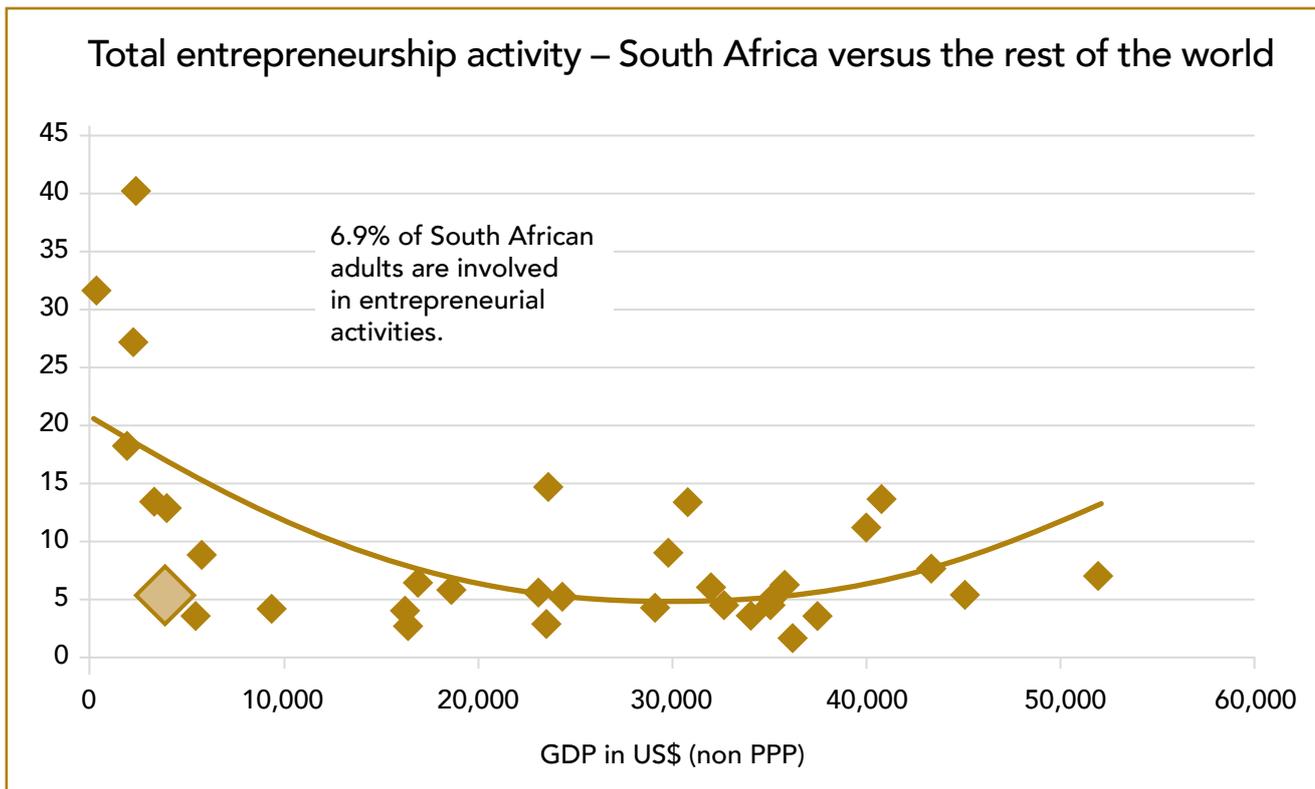


Figure 57. South Africa vs other economies – total entrepreneurship activity as a proportion of the adult population

While South Africa has a lower proportion of entrepreneurs than other economies at its stage of development – only 6.9% or 2.5 million of South African adults run their own business according to the Global Entrepreneurship Monitor<sup>17</sup> The number should be closer to 15% if the global trend is to be followed. And it is exacerbated by the fact that few of these create jobs, the vast majority is made up of necessity entrepreneurs who subsist in the informal sector. The kind of entrepreneurs who create the jobs quoted above are High Expectation Entrepreneurs, which the Global Entrepreneurship Monitor defines as a person who intends to employ more than 20 people in five years' time. In fact, these comprise fewer than 2% of the South African entrepreneur

16. [http://www.statssa.gov.za/?page\\_id=1854&PPN=P0211](http://www.statssa.gov.za/?page_id=1854&PPN=P0211)

17. <http://www.gemconsortium.org/country-profile/108>



population and yet they created 27% of all net jobs in the South African economy last year. Studies in Tanzania (a low income economy) and the United Kingdom (a high-income economy) suggested similar proportions.

The founder of Alumni Energy Investments, Shakes Motsilili has lobbied discretely and effectively for support of angel funding into start-ups. Citing experience in the UK, where Enterprise Investment Scheme tax breaks have enabled over R250 billion rand be invested into over 28,000 start-ups, it is estimated that over 50% of the UK's high expectation entrepreneurs received funding via EIS. South Africa has an estimated 50,000 high expectation entrepreneurs who in turn created 25% of net new jobs in South Africa between them. Yet according to the SAVCA 2016 report, only 44 were funded, and every one funded was not a start-up. The sad reality is that only 44 of these companies or 0.1% of the High Expectation Entrepreneur population received funding 2016.

This abject case of market failure is the most important reason for optimism towards the Aziza Coin Initiative. Currently, it faces literally no competition, leading to a case of mis-pricing of risk capital in the favour of the investor: This means that any funding into the space will achieve better valuations than in a more established venture capital market would when funding innovation projects. It also means that its investee companies will face less competition due to a dearth of potential new entrants. Furthermore, the Aziza Coin assisted start-ups, especially in the BEE space, which the Foundation plans to embrace, will be able to compete with larger, lethargic incumbents unused to nimble technology-rich competitors, particularly in FinTech, Telecoms and the Resources Sectors. The government has and will continue to be supportive of the Foundation's efforts to fund innovation by giving concessionary terms with licenses.



## The social impact of the venture capital industry's failure in South Africa

South Africa has a chronic unemployment problem with 36% of its adult population looking for work. Like with the rest of the developing world, this is skewed towards youth unemployment and women – over 70% of rural African women under the age of 35 are either long-term discouraged or unemployed actively seeking work.

There are many reasons that South Africa does not fund start-ups. Firstly, the problems South Africa faces are common throughout the developing world. Secondly its unique history has had a devastating effect on education, confidence and access to entrepreneurial networks.

South Africa needs jobs to alleviate its poverty, and it is universally accepted that the private not the public sector needs to create them. In the latest Quarterly Labour Force Survey issued by Statistics South Africa, there are 37 million adults in the country and 12 million of them are unemployed – that is 36% of the work force and one of the highest unemployment rates in the developing world.<sup>18</sup>

There are entrepreneurs in South Africa – 2.5 million of them according to the Global Entrepreneurship Monitor<sup>19</sup>. But few of these create jobs, they are what are called necessity entrepreneurs. The kind of entrepreneurs who create the jobs quoted above are High Expectation Entrepreneurs, which the Global Entrepreneurship Monitor defines as a person who intends to employ more than 20 people in five years' time. In fact, these comprise fewer than 2% of the South African entrepreneur population and yet they created 27% of all net jobs in the South African economy last year. A study in Tanzania suggested similar proportions.

So, if policy intervention was needed, the first question to ask would be: How is South Africa doing in supporting these all important high expectation entrepreneurs? The best indicator of support, lies in start-up funding. Of those 50,000 high expectation entrepreneurs who created 25% of net new jobs in South Africa between them, only 44 of these companies or 0.1% of the High Expectation Entrepreneur population received funding in 2016.

18. [http://www.statssa.gov.za/?page\\_id=1854&PPN=P0211](http://www.statssa.gov.za/?page_id=1854&PPN=P0211)

19. <http://www.gemconsortium.org/country-profile/108>

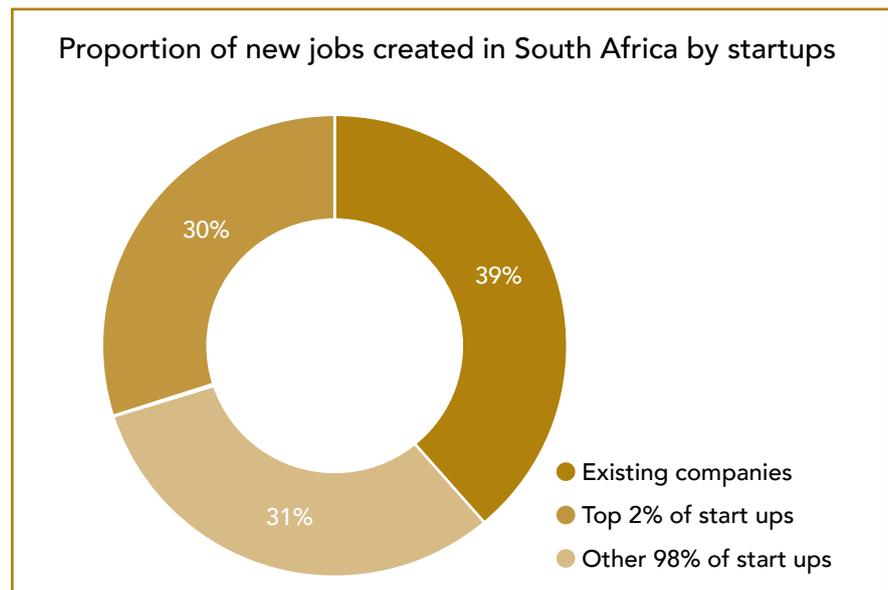


Figure 58. The impact of high expectation entrepreneurs on job creation in South Africa (Source Global Entrepreneurship Monitor)

## The investee company selection process

The investee company selection process comprises four stages:



Figure 59. The Aziza Coin investee company selection process

### Pre- selection mentorship

A key focus of the Foundation’s philosophy is to identify emerging technology talent and to nurture entrepreneurs into becoming investment ready for its turbo-boosted investment package. This work will be performed through a charitable institution that will provide free entrepreneurial support in the form of:

- Training – particularly to technologists to assist with their understanding of the commercialisation process
- Mentorship through the Foundation’s network
- Access to legal, web, marketing and other templates
- Training in creating the Comprehensive Due Diligence Pack according to Alumni’s specification



## Selection: the foundation's investment committee

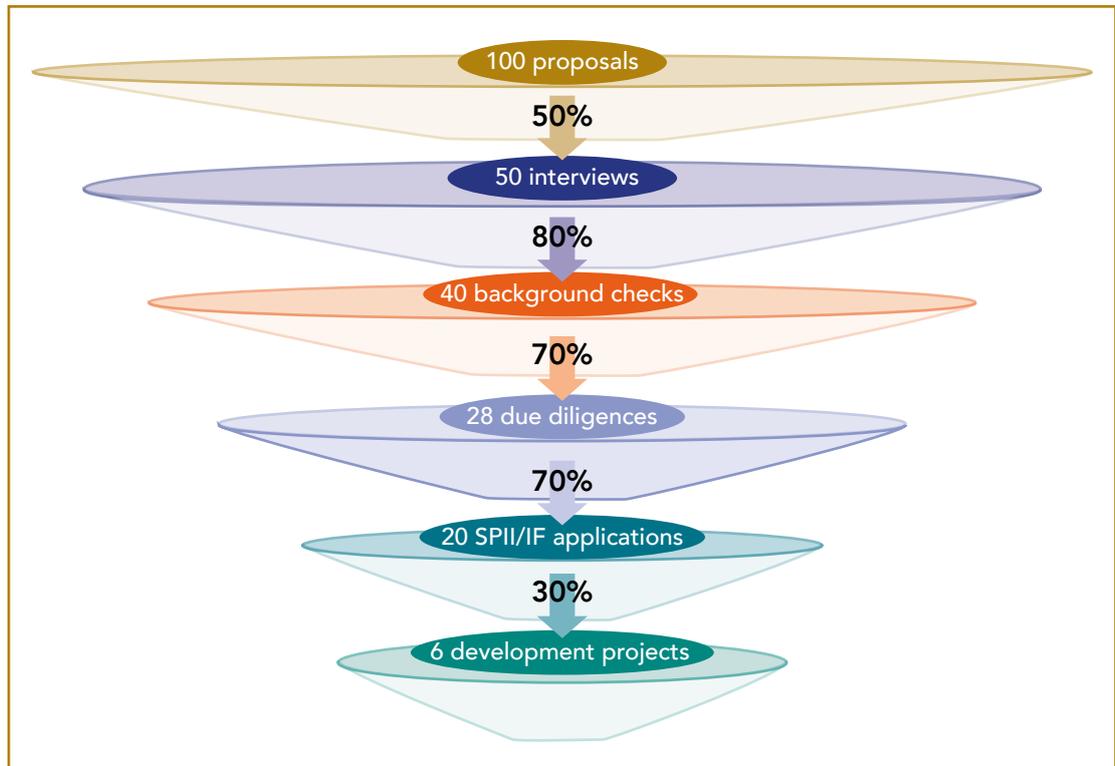


Figure 60. Selecting entrepreneurs to support

The financial and technical due diligence process as illustrated above has reduced 100 applications down to six.

The Foundation's Investment Committee with the assistance of the Administrative Manager applies rigorous investment criteria in its investment decisions and conducts a rigorous due diligence process before committing to any investment.

The Foundation will not become actively involved in each of the companies invested to maximize the chances of success. What it does, is to ensure that they are properly supported through the central services contract. It represents the most comprehensive entrepreneur support intervention in South African history.



## The aziza coin entrepreneur support eco-system

Besides a board seat, the Coin Administrator team will be involved in several business building activities (engineering growth) including:

- A techno economic reporting tool developed by the founder – which took 17 years in creation, tracks innovation through to finance. This allows for daily planning through to multi-decade planning
- Networks - identify, monitor continuously the partner universe
- Corporate governance - supplementing the board with external experts
- Financial reporting in line with best practices
- Involvement in sourcing and recruiting with hiring human capital
- Sales - guidance with the establishment of a measurable sales process as well as attendance at sales meetings, if required
- Development of sales leads where crowdfunding is base incentivized to offer potential sales leads
- Access to a website cluster around an innovative charity support social media/SEO strategy
- Marketing strategy - clearly articulate value proposition to client base
- Legal compliance with tax, fundraising IP and other legal requirements



## Planning for a successful exit

Ultimately the VCC and EIS's will look to exit the investment via one of three routes:

- Management buyout
- Listing
- Trade sale

The foundation will follow the lead of the investment management teams of the EIS funds and the VCC teams. Their philosophy regarding exit differs from other venture capitalists who plan the exit before they make the initial investment. While exit strategy is considered, the focus is on creating world-beating technology companies, where an exit will come with operational success. That said, we do look at the 'partner ecosystem' including; competitors, customers, suppliers, distributors, corporate venturing partners, other investors/other sources of funding, etc. and compile a list of these potential strategic buyers. Alumni's international energy network will be helpful as will the supportive crowd of investors who wish to involve themselves with this opportunity.

It is important to note that the exit strategy for the seven oil and gas exploration opportunities is better defined than for the technology enabling companies. Exploration companies have an industry accepted exit opportunity – once a resource is discovered and proven, generally a buyer can be found.



## Addendum E

### Tax ethics

Cryptocurrency wallet holders tend to view government and regulation as a threat to be avoided. Taxation of the estimated US\$100 billion of cryptocurrency gains is one of the thorniest issues facing the future of these digital assets. The Aziza Coin has taken a proactive approach, by working with SARS in South Africa to gain clarity as to the tax position of gains realized on the sale of its coins in several scenarios. It is therefore seeking a SARS ruling, to formalise verbal assurances that gains on the coin profits will be taxed as capital rather than income should they be reinvested in long-term illiquid VCC shares. In this way the Aziza Project LLC will be assisting SARS with formulating policy regarding taxation of cryptocurrencies.

For corporates, it is not relevant as all gains are taxed in the same way, regardless of the intention of the directors when purchasing the asset whose disposal gave rise to the gain in the first place. For individuals in the UK and South Africa, however, the nature of the gain is relevant as the tax treatment for capital gains is different to those deemed to be revenue in nature.

Seeking advice from SARS, the Aziza Project LLC have sought to gain clarity through the thicket of common law. Since the insertion of the 8th Schedule of the Income Tax Act 58 of 1962 as amended via the promulgation of The Taxation Laws Amendment Act 5 of 2001, nicknamed the "Shuttleworth Tax"<sup>20</sup>, SARS has sought to clarify how capital gains are calculated and taxed with a guidance note called The Comprehensive Guide to Capital Gains Tax (Issue 5)<sup>21</sup>, which incorporates of The Taxation Laws Amendment Act, 2015. Over the last 17 years it has grown to some 861 pages. The comprehensive nature of this guidance is helpful and the Aziza Project LLC have studied it to arrive at a proposal that clarifies the issues in a manner that is cashflow generative for SARS and therefore aligning investors to the South African Tax Authorities.

As Practice Note 5 explains:

The Income Tax Act does not define the words 'of a capital nature'.  
The line between income and capital has often been blurred and

20 Referring to the tax-free gains made by South African tax resident, Mark Shuttleworth who made a taxable gain of US\$1.1 billion in April 2000, in his personal capacity, when he sold his shares in Thawte Consulting (Pty) Ltd. The gain was tax free, as capital gains at the time were not subject to taxation. Schedule 8 sought to rectify this inconsistency in tax law.

21 The Comprehensive Guide to Capital Gains Tax (Issue 5 - <http://www.sars.gov.za/AllDocs/OpsDocs/Guides/LAPD-CGT-G01%20-%20Comprehensive%20Guide%20to%20Capital%20Gains%20Tax%20-%20External%20Guide.pdf>)



the source of much litigation between taxpayers and the fiscus over many decades. In deciding these disputes South African courts have over the years developed many tests or guidelines for distinguishing between the two concepts. However, there is

'no single infallible test of invariable application'<sup>22</sup>

Many of these principles find their origins in decisions of the courts of the United Kingdom and other commonwealth countries such as Australia and New Zealand.<sup>23</sup>

The Aziza Project LLC has therefore looked to UK tax, common law in UK and Israeli tax law, both of whose tax authorities have issued practice notes as to the taxation of cryptocurrencies. They have augmented their research on treatment of capital gains in conjunction with SARS Practice Note 5. On the advice of SARS, the Aziza Project LLC is seeking a formal ruling, where taxation of cryptocurrencies is handled in a predictable way, resolving an issue affecting South Africa tax resident holders of an estimated R40 billion (€2.8 billion) of undeclared gains. SARS are co-operating as they see this a way of closing the revenue gap represented by cryptocurrencies of some R5 billion – 10% of the total revenue gap SARS faces in the 2018 tax year.

Aziza Coin has proposed a taxation method that generates revenue for SARS while tax taxpayers who reinvest gains into start-ups obtain the tax breaks SARS intends them to get. The method draws from the principles of capital gains tax deferrals that the UK's HMRC uses to encourage support of high growth start-ups in the UK. It does this by offering them to angel investors when these investors reinvest deferred capital gains and inheritance tax liabilities into Enterprise Investment Schemes. South Africa does not allow for this type of inheritance tax or capital gains tax deferral and the Aziza Coin's Foundation is not seeking to change the law, despite industry requests to align VCC legislation with EIS legislation in the UK, on which Section 12J is based.

The Aziza Project LLC is less ambitious in that they intend only to create a tax position that gives investors certainty and one sufficiently attractive to SARS that it will not be in its interests to revise. The Foundation seek to do this - by merely establishing taxpayers' intention from their act of reinvestment into a Venture Capital Company, where the shares are illiquid and the fact that the investor faces recoupment of tax saved should they exit before the 5th anniversary of their investment. This is evidence that their act of disposal of a digital currency and reinvestment into a Venture

22 The Comprehensive Guide to Capital Gains Tax (Issue 5 - <http://www.sars.gov.za/AllDocs/OpsDocs/Guides/LAPD-CGT-G01%20-%20Comprehensive%20Guide%20to%20Capital%20Gains%20Tax%20-%20External%20Guide.pdf>)

23 CIR v Pick 'n Pay Employee Share Purchase Trust 1992 (4) SA 39 (A), 54 SATC 271 at 279.



Capital Company underscored their intention of transferring from one long-term capital asset to another.

The second instance where Aziza Project LLC was more hawkish than SARS occurred when they argued that where a digital coin has been purchased and sold within a short period and not reinvested into a long-term asset, it should be treated as revenue in nature and therefore taxed at the marginal tax rate in the hands of the individual.

The third issue was one of anti-avoidance where Section 103(2) of the Income Tax Act was considered. Should investors in certain coins reinvest digital currency capital gains into Venture Capital Companies within a short period of purchasing them, their dominant intention may have been to reduce their tax bill, rather than making a capital investment. As Alumni Energy Investments Ltd and all other VCCs that Aziza Coin plans to align itself with, do not want their tax ethical stance to be compromised, they have committed that they will not accept moneys from investors' digital currency gains unless the investor invests:

- all the gain and,
- tops up with at least the tax they would be saving with the VCC deduction.

By adding this commitment, the risk of Section 103(2) being invoked is mathematically eliminated, as the only way investors can arrive at a cashflow positive outcome having made this top-up payment, is through the success of the start-ups funded. Therefore, it is logically impossible for an investor to have any intention other than that of benefiting from their support of start-ups with patient capital. The investment therefore must be capital in nature.

The following tax situations have been discussed with SARS and a formalised ruling as to their treatment has been sought.



Scenario	Tax treatment	Reason
Coins disposed of by South African tax residents after being in digital wallets for 3 years	Gain from digital currencies taxed as <b>capital gain</b>	Investment in digital currency should be treated as an "equity hybrid instrument" as defined in Section 9C of the 8th Schedule of the Income Tax Act: Such instruments held for longer than three years are deemed to be capital in nature regardless of investor intention.
Coins disposed of by South African tax residents after residing in digital wallets in their possession for fewer than 3 years and proceeds reinvested in the same tax year into a VCC, with the VCC investment topped up by a minimum of the value of the tax deduction available under Section 12J	Gain from digital currencies taxed as <b>capital gain</b>	Section 9C does not apply, so intention needs to be assessed. Aziza Project LLC asserted to SARS that the act of reinvestment of capital gains and topping up the reinvested gain with another illiquid VCC investment, shows the intention of the investor to accumulate long term capital gains by participating in the success of start-ups their augmented investment supported. As the investor stands to lose the digital currency gains should the start-ups all fail, they will not be in a better short term cashflow position than if they not entered into both transactions in the first place, so it is mathematically impossible for their primary intention to be to avoid tax under section 103(2).
Coins disposed of by South African tax residents after being in digital wallets for fewer than 3 years and the proceeds reinvested in the same tax year into a VCC, without the VCC investment being topped up by the tax benefit obtained from a VCC deduction.	Gain from digital currencies taxed as <b>income</b> .	There is a potential for such behaviour to fall fowl of section 103 (2) of the Income Tax Act, as other coins could be specifically created to avoid taxes. Aziza Coin-aligned VCCs commit not to accept investment in these circumstances. Aziza Project LLC manages this risk by only assisting investors to realize digital currency gains from coins such as BTC, ETH and AZI once they have deposited at least the value of the tax deduction in a custodial account of the VCC.
Coins disposed of after being were purchased less than three years before the disposal date. Proceeds are not reinvested with a VCC.	Gain from digital currencies taxed as <b>income</b> .	The volatility of the cryptocurrency markets and liquidity of certain coins like BTC means that short term trading tends to be the dominant intention, unless trader can prove otherwise. The Aziza Coin will not involve itself in these circumstance -except on the sale of Aziza Coins with the ICO, where a SARS IT3(a) will be issued to investors.
Wallet holder is not tax resident in South Africa	None	Out of scope, not reporting requirements to SARS.

Figure 61. Digital currency tax scenarios analysed with SARS



## **Addendum F**

# **Financial model**

See attached as .pdf

