

Risk Factors of Wolk Tokens and Token Generation Event

October 15, 2017

Wolk Inc. supports and implements the development of decentralized Database Services. Wolk Inc. is sponsoring an issuance and release of tokens (“**Wolk Tokens**” or “**WLK**,” and the “**Token Generation Event**”) that will allow holders to purchase data and content in SWARMDB tables using the Wolk Tokens. The risk factors below (“**Risk Factors**”) provide additional background on the risks associated with Wolk Tokens, the Wolk Database Services and the Token Generation Event.

***Important:** None of the information presented in these Risk Factors is intended to form the basis for any investment decision, and no specific recommendations are intended. Wolk Inc. expressly disclaims any and 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 these Risk Factors or any information provided to investors as part of the Token Generation Event (collectively, the “**Offering Information**”), (ii) any error, omission or inaccuracy in any such information or (in) any action resulting from such information.*

*The Tokens are being offered in reliance upon exemptions from the registration requirements of the U.S. Securities Act of 1933 (“**Securities Act**”). As a result, there are substantial restrictions on the transferability of the Tokens, and there will be no public market for the Tokens for U.S. Purchasers. Unless the Tokens are used in a commercial transaction using the Wolk Database Services, the Tokens may not be offered, sold or transferred in the United States, other than for purposes of engaging in commercial transactions using the Wolk Database Services, absent registration or an applicable exemption from the registration requirements. In particular, outside a commercial transaction using the Wolk Database Services, the Tokens may not be transferred within the United States or to a “U.S. person” unless such transfer is made to an “accredited investor” in compliance with applicable securities law (or used to purchase data or content using the Wolk Database Services), and may only be transferred in a transaction outside the United States to non-U.S. persons, unless and until such time as the WLK reasonably determines and advises holders that the Tokens are not securities and freely tradeable. Any transfer made in violation of these restrictions will be void.*

Will my WLK increase in value?

There is no guarantee that Wolk tokens (“WLK”) will hold their value or increase in value, and you may lose the amount of any payment for WLK in whole or in part.

Crypto assets such as WLK are a new and relatively untested product. There is considerable uncertainty about its long-term viability, which could be affected by a variety of factors, including many market-based factors such economic growth, inflation, and others. In addition, the success of WLK and other types of crypto assets will depend on whether blockchain and other new technologies related to WLK turn out to be useful and economically viable. Wolk Inc. (“Wolk”) does not control any of these factors, and therefore may not be able to control the long-term success of WLK as a feature of Wolk’s Database Services, or the ability of WLK to maintain their value.

We anticipate that WLK will grow in value based on increasing demand for WLK, within the Wolk ecosystem. However, there can be no guarantee that WLK will hold its value or increase in value. Many factors will influence this outcome, some of which are described in these Risk Factors.

Will my WLK fluctuate in value relative to other crypto assets, dollars, or other currency?

The volatility and unpredictability of the price of crypto assets, including WLK and its denominating virtual currency, Ether, relative to fiat currency may result in significant loss over a short period of time.

WLK is acquired through an exchange of Ether for WLK. The value of WLK may be derived from the continued willingness of market participants to exchange fiat currency for Ether, which may result in the potential for permanent and total loss of value of WLK should the market for Ether disappear.

Is there any guarantee or insurance supporting the value of my WLK?

No. Wolk provides no guarantee that the amount of WLK you purchase will retain its value, and you may lose all or some of that value. Wolk does not plan to maintain any type of bond or trust account designed to protect holders of WLK. Even if Wolk did so, you should be aware that any bond or trust account maintained by Wolk for the benefit of its customers may not be sufficient to cover all losses incurred by customers.

What are the tax consequences of owning or utilizing WLK?

The tax characterization of WLK is uncertain as are the consequences of transactions utilizing Wolk. If WLK is characterized as a “virtual currency” for income purposes, then, under a Notice issued by the U.S. Internal Revenue Service in 2014, the general rules applicable to property transaction would apply. See [Notice 2014-21, 2014-16 I.R.B. 938](#). You must seek your own tax advice in connection with purchasing and utilizing WLK, which may result in adverse tax consequences to you. Accordingly, you are strongly encouraged to seek independent legal and tax advice regarding your individual circumstances and objectives in determining whether to purchase WLK.

Is WLK legal tender? Are deposits of WLK protected by Federal Deposit Insurance Corporation and/or Securities Investor Protection Corporation protections?

No. WLK is not legal tender, is not backed by the government, and accounts and value balances are not subject to Federal Deposit Insurance Corporation or Securities Investor Protection Corporation protections.

Are WLK registered with any U.S. state or federal securities or commodities regulators?

No. Wolk believes that because the WLK are designed to be used for commercial transactions using the Wolk protocols, the WLK are not securities, futures, swaps, or any similar type of

instrument. However, because a U.S. regulator could disagree with that assessment, Wolk is treating the WLK issued in the Token Generation Event as securities for purposes of the Token Generation Event with respect to U.S. investors. Therefore, in compliance with the safe harbor for private offerings in the United States under the Securities Act, Wolk is only allowing non-U.S. persons and U.S. persons who are “accredited investors” to purchase the WLK in its Token Generation Event. This means that purchasers of WLK will not be provided the full set of protections that registration or associated regulations under the Securities Act would otherwise give them.

Based on anticipated use of the WLK and the Wolk Database Services, Wolk believes that over time, all the Tokens will reasonably be treated as non-securities for purposes of U.S. law. In particular, Wolk believes that acceptance of the Wolk Database Services will mean that WLK are mainly used for commercial transactions using those services, which will cause the Tokens to take on additional characteristics of non-securities. At the point when Wolk believes that this has occurred, it will notify holders of the Wolk Tokens. There is no guarantee that this will occur. In addition, there is no guarantee that a regulator will agree with Wolk’s analysis. If a regulator disagrees, Wolk may need to make significant changes with respect to how the Wolk Tokens are structured, how they are purchased and sold, and other issues, which could greatly increase Wolk’s costs in operating its business. This development could also lead to the termination of WLK. Further, a regulator could take action against Wolk if it views Wolk and/or the WLK as out of compliance with law. Any of these outcomes would negatively affect the value of WLK.

Is Wolk registered as a money transmitter or money services business?

No. Wolk believes that Wolk is not a money transmitter (“MT”) or a money services business (“MSB”). If Wolk was deemed to be a MT and/or MSB, it would be subject to significant additional regulation. This could lead to significant changes with respect to the Wolk Database Services, how WLK are structured, how they are purchased and sold, and other issues, and would greatly increase Wolk’s costs in creating and facilitating transactions in WLK. It could lead to the termination of Wolk. Further, a regulator could take action against Wolk if it views WLK and the Wolk Database Services as a violation of existing law. Any of these outcomes would negatively affect the value of WLK and/or could cause Wolk to cease operations.

Is Wolk licensed to conduct a virtual currency business in New York?

No. Wolk does not intend to operate in states that require a license to conduct a virtual currency business. If you are a resident of a state that requires a license to conduct a virtual currency business, Wolk will not allow you to purchase WLK and participate on the Wolk Database Services. Currently, only New York has this type of requirement, but other states may adopt similar requirements.

If Wolk was deemed to be conducting an unlicensed virtual currency business it would be subject to significant additional regulation and/or regulatory consequences. This could lead to significant changes with respect to the Wolk Database Services, how WLK are structured, how they are purchased and sold, and other issues, and would greatly increase Wolk’s costs in creating and facilitating transactions in WLK. It could lead to the termination of Wolk and the

Wolk Tokens. Further, a regulator could take action against Wolk if it views WLK and the Wolk Database Services as a violation of existing law. Any of these outcomes would negatively affect the value of WLK and/or could cause Wolk to cease operations.

Are WLK subject to any non-US regulation?

The regulatory risks described above take into consideration U.S. law only. It is anticipated that WLK will also be sold or resold outside the United States, which could subject Wolk or WLK to non-U.S. legal requirements, which could be significant. Non-U.S. regulation could lead to the same types of changes and outcomes described above with respect to U.S. regulation, and any of these outcomes would negatively affect the value of WLK and/or cause Wolk to cease operations.

Could changes in international, federal, state, or local laws impact the value of WLK and/or my ability to engage in transactions using WLK?

Yes. Legislative and regulatory changes or actions at the State, Federal, or international level may adversely affect the use, transfer, exchange, and value of WLK. You should be aware that the regulatory status of WLK and similar crypto assets is unclear or unsettled in many jurisdictions. It is difficult to predict how or whether regulatory agencies may apply existing or new regulation with respect to such technology and its applications, including WLK and the Database Services. Further, it is 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 WLK and the Database Services. Regulatory actions could negatively impact WLK and the Database Services in various ways, including, for example, through a determination that WLK are a regulated financial instrument required to be registered with the appropriate regulatory agency.

While Wolk believes that it is in compliance with U.S. law, changes in the law by legislatures and regulatory agencies could negatively impact WLK and the databases services. Wolk may cease operations in a jurisdiction in the event that regulatory actions, or changes to law or regulation, make it illegal or commercially undesirable to operate in such jurisdiction.

How will transactions in WLK be recorded?

WLK transactions shall be deemed to be made when recorded on a public ledger, which is not necessarily the date or time that you initiate the transaction. All transactions are recorded on the public Ethereum blockchain, which can be inspected on sites like Etherscan.io readily.

Will Wolk, its affiliates, or third-parties always accept WLK?

There is no assurance that a person who accepts WLK as payment today will continue to do so in the future.

Are my WLK vulnerable to social engineering, phishing emails, man-in-the-middle, phone hijacking, ransomware, denial of service, hacking, and other cyber-attacks?

The nature of crypto assets, such as Ether and WLK, may lead to an increased risk of fraud or cyber attack. Hackers or other malicious groups or organizations may attempt to interfere with WLK or the Database Services in a variety of ways, including, but not limited to, malware attacks, denial of service attacks, consensus-based attacks, Sybil attacks, smurfing, spoofing, social engineering, phishing emails, man-in-the-middle, phone hijacking, and ransomware. Furthermore, because Database Services are based on open-source software, there is a risk that a third party, Wolk, or an affiliate may intentionally or unintentionally introduce weaknesses into the core infrastructure of the database services, which could negatively affect WLK and the Database Services. Recently, other platforms or services that sponsor and engage in transactions in crypto assets have been the subject of hacking attacks that have resulted in a loss of crypto assets. Among other things, you could lose your WLK due to these types of threats, or Wolk could experience a loss of Ether in its own wallet, which would undermine core components of the Database Services and put Wolk at financial risk.

You are responsible for educating yourself on protecting your personally identifiable information and on cybersecurity best practices. While Wolk will take all steps that are commercially reasonable and customary to prevent or mitigate the impact of cyber attacks, there can be no guarantee that Wolk will be successful in preventing all cyber attacks on its systems.

Are the Database Services vulnerable to similar cyber-attacks?

Wolk supports and implements the development of decentralized databases services for buyers and sellers of data, content, or storage (the “Services”). The Services are susceptible to a number of risks related to the storage of data in the cloud. The Services may involve the storage of large amounts of sensitive and/or proprietary information, which may be compromised in the event of a cyberattack or other malicious activity. Similarly, the Services may be interrupted and files may become temporarily unavailable in the event of such an attack or malicious activity. Because users can use a variety of hardware and software that may interface with the Database Services, there is the risk that the Services may become unavailable or interrupted based on a failure of interoperability or an inability to integrate these third-party systems and devices that Wolk does not control with Wolk’s Services. The risk that the Services may face increasing interruptions and the Services may face additional security vulnerabilities could adversely affect the Services and therefore the future value and utility of any WLK that you hold.

What happens if I lose my private keys?

WLK balances are associated with your Ethereum public key address, which is in turn associated with your Ethereum private key address. You are responsible for knowing your private key address and keeping it a secret. Because a private key, or a combination of private keys, is necessary to control and dispose of WLK stored in your digital wallet or vault, the loss of one or more of your private keys associated with your digital wallet or vault storing WLK will result in the loss of your WLK. Moreover, any third party that gains access to one or more of your private keys, including by gaining access to login credentials of a hosted wallet service you use, may be able to misappropriate your WLK. Wolk and its affiliates will never ask you for your private key address and you should never share them with someone you do not know.

What happens if I accidentally spend WLK or I am misled into spending WLK?

Transactions in WLK are irreversible, and, accordingly, losses due to fraudulent or accidental transactions may not be recoverable.

Are WLK susceptible to mining attacks?

As with other decentralized cryptographic tokens based on the Ethereum protocol, WLK are susceptible to attacks by miners in the course of validating WLK 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 WLK and the Platform, including, but not limited to, accurate execution and recording of transactions involving WLK.

Will Wolk ever experience a disruption in its business operations and services that prevent me from accessing or transacting in WLK?

The digital nature of WLK means that any technological difficulties experienced by Wolk and its affiliates may prevent the access or use of your WLK. While Wolk will take all steps that are reasonable and customary to prevent or mitigate the impact of disruptions in Wolk's business operations and services, there can be no guarantee that Wolk will be successful in preventing all such disruptions.

Will the supply of WLK ever decrease?

Yes. Each time the sellWolk function is used in the Wolk Token Contract, tokens are "burnt" and ETH is returned to the caller.

Will the supply of WLK ever increase?

Yes, anyone with an Ethereum wallet may interact with the WLK token contract after the Token Generation Event and send ETH to the "purchaseWolk" function and receive WLK in return. This mechanism increases the supply of WLK.

Is it guaranteed that I will be able to sell my WLK or exchange WLK for other currencies?

No. The Tokens are being offered in reliance upon exemptions from the registration requirements of the Securities Act. As a result, unless the Tokens are used in a commercial transaction using the Wolk Database Services, the Tokens may not be transferred within the United States or to a "U.S. person" unless such transfer is made to an "accredited investor" in compliance with applicable securities law and may only be transferred in a transaction outside the United States to non-U.S. persons, unless and until such time as Wolk reasonably determines and advises holders that the Tokens are not securities and freely tradeable. Any transfer made in violation of these restrictions will be void.

Even after the Tokens are freely tradeable, there is no guarantee that holders will be able to sell or exchange their WLK. Although the WLK token contract supports exchange of WLK for

Ether, and exchanging Ether for other currencies is widely supported at this time, there is no guarantee that you will be able to freely exchange WLK for Ether or any other currency. In the event that secondary trading of WLK 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 fraud or manipulation. Furthermore, to the extent that third parties do ascribe an external exchange value to WLK, such value may be extremely volatile and diminish to zero. Holders of WLK should be prepared to hold onto their Wolk if necessary for an indefinite period.

Is it guaranteed that I can redeem my WLK for Ether directly from Wolk?

No. Wolk anticipates maintaining an Ether reserve representing 5% of the total value of existing WLK. The Wolk Token smart contracts automatically adjust the exchange rate between Ether and WLK on an ongoing basis to allow liquidity while maintaining this reserve. However, there can be no guarantee that the reserve will be successfully maintained.

Is there a guarantee that I can use WLK on other Database Services?

No. Wolk is designing the WLK to initially facilitate Database Services. [However, third parties could also build systems using Wolk Tokens. There is no guarantee that any third parties will develop alternative uses of Wolk Tokens.]

Will I be able to cast a vote or otherwise have a say in how WLK are administered or governed?

No. Holders of WLK do not have any right to vote on any aspect of how the Wolk Database Services (or any buyer or seller) are administered or governed. As a result, holders will not have control over many key aspects of how WLK and the Wolk Database Services are administered and are reliant on Wolk and its personnel for those operations and the success of the WLK.

Accordingly, because WLK confer no governance rights of any kind with respect to the Database Services or Wolk or its corporate affiliates, all decisions involving the Database Services or WLK will be made by Wolk at its sole discretion, including, but not limited to, decisions to discontinue the Database Services, to create and sell more WLK for use in the Database Services, or to sell or liquidate Wolk. These decisions could adversely affect the Database Services and the WLK you hold.

Does Wolk’s management team have experience successfully operating other businesses utilizing crypto assets and distributed ledger technology?

WLK and the Database Services represent a new business venture for Wolk’s management team (“Management”). Further, crypto assets such as WLK are a new and untested technology. While Management has prior business experience, this is Management’s first business venture focused on distributed ledger technology. Accordingly, Management’s past successes do not guarantee future outcomes or the long-term success of WLK and the Platform.

What happens if a competitor offers the same or similar service as Wolk?

It is possible that alternative platforms or services could be established that utilize the same open source code and protocol underlying the Database Services, either directly or indirectly through reverse engineering, and attempt to facilitate materially similar services as Wolk. The Database Services may compete with these alternative networks, which could negatively impact WLK and the Database Services.

Does the success of WLK depend on third-party service providers or systems that Wolk does not control?

Yes. Because the Database Services and WLK are built on the Ethereum blockchain and ERC20, it is in part dependent on Ethereum's effectiveness and success, as well as the success of other blockchain and decentralized data storage systems that are incorporated in to the Wolk Database Services. There is no guarantee that any of these systems or their sponsors will continue to exist or be successful, in which case WLK would need to modify its Database Services to adapt to a new way of providing its services. This could lead to disruptions of the Wolk Database Services and could negatively affect WLK, its functionality, and its value.

Moreover, advances in cryptography, or technical advances such as the development of quantum computing, could present risks to WLK and the Database Services by undermining or vitiating the cryptographic consensus mechanism that underpins the Ethereum protocol. Similarly, legislatures and regulatory agencies could prohibit the use of current and/or future cryptographic protocols which could limit the utility of WLK, resulting in a significant loss of value or the termination of WLK and the Database Services.

Does Wolk control the conduct of the users of the Database Services?

Wolk anticipates that the Database Services will attract buyers and sellers of sharable data, content, and storage. There can be no guarantee, however, that users of the Database Services will not engage in misconduct. Such behavior could negatively impact WLK and the Database Services, both on a short-term and long-term basis.

Will the value of Ether impact the success of the Token Generation Event?

Management intends to use the proceeds from selling WLK to fund the maintenance and development of the Database Services, as described further in the WLK Tokens and Token Generation Event Term Sheet [<https://wolk.com/app/faq>]. The proceeds of the Token Generation Event will be denominated in Ether, and may be converted into other cryptographic and fiat currencies. If the value of Ether or other currencies fluctuates unfavorably during or after the Sale Period, Management may not be able to fund development, or may not be able to develop or maintain the Platform in the manner that it intended.

What happens if there is low demand for WLK or no one buys WLK during or after the Token Generation Event?

It is possible that there will be minimal to no demand for WLK. In such an event, the short-term and long-term viability of WLK and the Database Services will be in doubt and Wolk may terminate WLK and cease all operations. Moreover, the crypto asset market is a new and untested market, the characteristics and behavior of which, in the context of domestic and global markets, is not fully understood.

What happens if Wolk ceases operations and goes out of business?

There is no guarantee that Wolk and its affiliates will continue as viable companies. The utility and value of WLK depend on Wolk's success and support of the Wolk Database Services. If Wolk ceases operations and goes out of business, you may lose 100% of the value of your WLK.