

# RISK FACTORS



Miami Crypto Exchange

## ***RISK FACTORS***

You should carefully consider the risk factors described below together with the information contained in the Subscription Agreement before making an investment decision to invest in our Securities. While we believe these risks and uncertainties are the most important for you to consider, they are not the only ones facing the Company. If any of the following risks actually occurs, our business, financial condition or results of operations may be negatively affected. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. Under such circumstances, the value of our Securities could decline, and you may lose all or any part of your investment.

An investment in the Units is a speculative investment and involves significant risks, and should be made only by persons or entities that can afford the loss of their entire investment. The following considerations do not constitute a complete discussion of the risks relating to the Company. An accurate appraisal of the risks of an investment in the Units can only be gained through an investor's own due diligence.

### ***Risks Related to Our Business***

#### ***1) Market Fluctuations***

Cryptocurrency market fluctuations, which are caused by such factors as regulations, market cap, tokens availability and shifts in demand of end customers, affect the Company. Although the Company carefully monitors changes in market conditions, it is difficult to completely avoid the impact of market fluctuations due to economic cycles in countries around the world and changes in the demand for cryptocurrencies. Market downturns, therefore, could lead to decline in product demand and decrease prices. Consequently, market downturns could reduce the Company's customer transactions, as well as lower utilization rates, which may in turn result in worsened gross margins, ultimately leading to deterioration in profits.

## ***2) Fluctuations in foreign exchange and interest rates***

The Company engages in business activities with customers from all parts of the world, but can only receive payments from inside United States. The Company tries to engage in hedging transactions and other arrangements to minimize exchange rate risk, but it is possible for our consolidated business results and financial condition, including our sales volume in foreign currencies, our materials costs in foreign currencies and other items, to be influenced if exchange rates change significantly. Also, the Company's assets, liabilities, income, and costs can change greatly by showing our foreign currency denominated assets and debts converted to amounts in other currencies, and these can also change when financial statements in foreign currencies at our overseas subsidiaries are converted to and presented in other currencies.

## ***3) Natural Disasters***

Natural disasters such as earthquakes, typhoons, and floods, as well as accidents, acts of terror, infection and other factors beyond the control of the Company could adversely affect the Company's business operation. Especially, as the Company owns key facilities and equipment in areas where Typhoons occur at a frequency higher than the global average, the effects of typhoons and other events could damage the Company's facilities and equipment and force a halt to cryptocurrency production and other operations, and such events could consequently cause severe damage to the Company's business. The Company sets and manages several preventive plans and Business Continuity Plan which defines countermeasures such as contingency plans and at the same time the Company is subscribed to various insurances; however, these plans and insurances are not guaranteed to cover all the losses and damages incurred.

## ***4) Competition***

The Cryptocurrency industry is extremely competitive, and the Company is exposed to fierce competition from rival companies around the world in areas

such as application performance, structure and pricing. In particular, certain of our competitors have pursued acquisitions, consolidations, and business alliances, etc. in recent months and there is a possibility to have such moves in the future as well. As a result, the competitive environment surrounding the Company may further intensify. To maintain and improve competitiveness, the Company takes various measures including development of leading edge technologies, designing new business models, cost reduction, and consideration of strategic alliances with third parties or possibility of further acquisitions but in the event that the Company cannot maintain its competitiveness may negatively impact the Company's financial results.

In addition, fierce market competition has subjected the services of the Company to sharp downward pressure on prices, for which measures to improve profitability, such as price negotiations and efforts at fee reduction, have been unable to fully compensate. This raises the possibility of a worsening of the Company's gross margin.

### ***5) Implementation of Management Strategies***

The Company is implementing a variety of business strategies and structural measures, including making the mid-term growth strategy and reforming the organizational structure of the Company, to strengthen the foundations of its profitability. Implementing these business strategies and structural measures requires a certain level of cost and due to changes in economic conditions and the business environment, factors whose future is uncertain, and unforeseeable factors, it is possible that some of those reforms may become difficult to carry out and others may not achieve the originally planned results. Furthermore, additional costs, which are higher than originally expected, may arise. Thus these issues may adversely influence the Company's performance and financial condition.

### ***6) Business Activities Worldwide***

The Company's conducts business worldwide, which can be adversely affected by factors such as barriers to long-term relationships with potential customers and local enterprises; restrictions on investment; tariffs; fair trade regulations;

political, social, and economic risks; exchange rate fluctuations and rising wage level. As a result, the Company may fail to achieve its initial targets regarding business in overseas markets, which could have a negative impact on the business growth and performance of the Company.

### ***7) Strategic Alliance and Corporate Acquisition***

For business expansion and strengthening of competitiveness, the Company may engage in strategic alliances, including joint investments, and corporate acquisitions involving third parties in the areas of R&D on key technologies and products, services, etc. With regard to such alliances and acquisitions, the Company examines the likely return on investment and profitability from a variety of perspectives. However, in cases where there is a mismatch with the prospective alliance partner or acquisition target in areas of management strategy such as capital procurement, technology management, and product development, or there are financial or other problems affecting the business of the prospective collaboration partner or acquisition target, in addition to the time and expense required for integration of aspects such as business execution, technology, products, personnel, systems and response to compliance regulations and other regulations of the relevant authorities, there is a possibility that the alliance relationship or capital ties will not be sustainable, or in the case of acquisitions that the anticipated return on investment or profitability cannot be realized.

Furthermore, there is a possibility that the anticipated synergies or other advantages cannot be realized due to an inability to retain or secure the main customers or key personnel of the prospective alliance partner or acquisition target. Thus, there is no guarantee that an alliance or acquisition will achieve the goals initially anticipated.

### ***8) Financing***

While the Company has been procuring business funds by methods such as funding rounds and other sources, in the future it may become necessary to

procure additional financing to implement business and investment plans, expand cryptocurrency producing capabilities, acquire technologies and services, and repay debts. It is possible that the Company may face limitations on its ability to raise funds due to a variety of reasons, including the fact that the Company may not be able to acquire required financing in a timely manner or may face increasing financing costs due to the worsening business environment in the cryptocurrency industry, worsening conditions in the financial and cryptocurrency markets, and changes in the lending policies of lenders. In addition, some of the borrowing contracts executed between the Company and some financial institutions stipulate articles of financial covenants. If the Company breaches these articles due to worsened financial base of the Company etc., the Company may lose the benefit of term on the contract, and it may adversely influence the Company's business performance and financial conditions.

#### ***9) Notes on the Fact that the Largest Unit holders Possesses the a Majority Share of Voting Rights***

The business operations of the Company are potentially subject to a substantial influence through the exercise by the Founder Members of its voting rights at General Meetings of Partnership. In addition, should the Founders Members at some future date sell all or part of the Units Ownership which are currently held for investment purpose, this could potentially have a substantial effect on the market value of Adventurous Entertainment Units of Ownership, depending on factors such as the market climate at the time of the sale.

#### ***10) Rapid Technological Evolutions and Other Issues***

The Cryptocurrency market in which the Company does business is characterized by rapid technological changes and rapid evolution of technological standards. Therefore, if the Company is not able to carry out appropriate research and development, the Company's businesses, performance, and financial condition may all be adversely affected by product or service obsolescence and the appearance of competing products.

## **11) Product Sales**

### *a. Reliance on Key Customers*

The Company relies on certain key customers for the bulk of its product sales to customers. The decision by these key customers to cease adoption of the Company's products, or to dramatically reduce order volumes, could negatively impact the Company's operating results.

### *b. Reliance on Authorized Third Parties*

In South America, the Company is about to start alliances for third parties to sell our products and will have to rely on certain major authorized sales agents for the bulk of these sales. The inability of the Company to provide these authorized sales agents with competitive sales incentives or margins, or to secure sales volumes that the authorized sales agents consider appropriate, could result in a decision by such agents to review their sales network of the Company's products, including the reduction of the network, etc., which could cause a downturn in the Company sales.

## **12) Securing Human Resources**

The Company works hard to secure superior human resources for management, technology development, sales, and other areas when deploying business operations. However, since such superbly talented people are of limited number, there is fierce competition in the acquisition of human resources. Under the current conditions, it may not be possible for the Company to secure the talented human resources it requires.

## **13) Capital Expenditures and Fixed Cost Ratio**

The cryptocurrency business in which the Company is engaged requires substantial capital investment. The Company undertakes capital investment in an ongoing manner, and this requires it to bear the associated amortization costs. In addition, if there is a drop in demand due to changes in the market climate and

the anticipated scale of sales cannot be achieved, or if excess supply causes product prices to fall, there is a possibility that a portion or the entirety of the capital investment will not be recoverable or will take longer than anticipated to be recovered.

This could have an adverse effect on the business performance and the financial condition of the Company. Furthermore, the majority of the expenses of the Company are accounted for by fixed costs such as production costs associated with mining machines maintenance and R&D expenses, in addition to the above-mentioned amortization costs accompanying capital investment. Even if there is a slump in sales due to a reduction in orders from the Company's main customers or a drop in product demand, or if the mining farm operating rate decreases, it may be difficult to reduce fixed costs to compensate. As a result, a relatively small-scale drop in sales can have an adverse effect on the profitability of the Company.

#### ***14) Impairment Loss on Fixed Assets***

The Company owns substantial fixed assets, consisting of both tangible fixed assets such as mining machines and equipment and intangible fixed assets such as goodwill of the Founders Members. These fixed assets are amortized according to the accounting principles generally accepted in United States ("GAAP"), but when there are indications of impairment, the Company examines the possibility of recovering the book value of assets based on the future cash flow to be generated from the fixed assets. It may be necessary to recognize impairment of such assets if insufficient cash flow is generated. Furthermore, the Company is considering the voluntary adoption of International Financial Reporting Standards (IFRS), starting with the fiscal year ending December 31, 2017. Under IFRS goodwill is not amortized, and a different method is used to determine impairment of fixed assets. As a result of the change in accounting standards, it may be necessary to recognize impairment of goodwill earlier than was the case under GAAP, and the impairment to be recognized may be larger.

## ***15) Information Systems***

Information systems are growing importance in the Company's business activities. Although the Company makes an effort to manage stable operation of information systems, there is a likelihood that customer confidence and social trust would deteriorate, resulting in a negative effect on the Company's performance, if there is a significant problem with the Company's information systems caused by factors such as natural disasters, accidents, computer viruses and unauthorized accesses.

## ***16) Information Management***

The Company has in its possession a great deal of confidential information and personal information relating to its business activities. While such confidential information is managed according to law and internal regulations specifically designed for that purpose, there is always the risk that information may leak due to unforeseen circumstances.

Should such an event occur, there is a likelihood that leaks of confidential information may result in damages to our competitive position and customer confidence and social trust would deteriorate, resulting in a negative effect on the Company's performance.

## ***17) Legal Restrictions***

The Company is subject to a variety of legal restrictions in the various countries and regions. These include requirements for approval for businesses and investments, Anti-money Laundering Programs, laws and regulations, capitalization restrictions, customs duties and tariffs, accounting standards and taxation, and environment laws. Moving forward, it is possible that the Company's businesses, performance, and financial condition may be adversely affected by increased costs and restrictions on business activities associated with the strengthening of local laws.

The Company makes use of an internal regulation system to ensure legal compliance and appropriate financial reporting. However, since by its nature an internal regulation system is inherently limited, there is no guarantee that it will accomplish its goals completely.

Consequently, the possibility is not nonexistent that legal violations, etc., may occur moving forward. Should a violation of the law or other regulations occur, the Company could be subject to administrative penalties such as fines, legal penalties, or claims for compensatory damages, or there could be a negative impact on the social standing of the Company. This could have an adverse effect on the businesses, business performance, and financial condition of the Company.

### ***18) Legal Issues***

As the Company conducts business worldwide, it is possible that the Company may become a party to lawsuits, investigation by regulatory authorities and other legal proceedings in various countries. It is difficult to predict the outcome of the legal proceedings to which the Company is presently a party or to which it may become a party in future. The resolution of such proceedings may require considerable time and expense, and it is possible that the Company may be required to pay penalties for regulatory laws, possibly resulting in significant adverse effects to the business, performance, and financial condition of the Company.



## Miami Exchange

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