

November 30, 2018

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Information contained in this Report is given as of October 31, 2018, except as otherwise noted.

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Readers should not construe the contents of this Report as financial or investment advice and should not rely upon this Report for the purposes of buying, selling or holding AION tokens or coins or for any other purpose.

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The unaudited financial information provided in this Report has been prepared by the Aion Foundation and does not include complete financial statements. The financial information provided may not comply with applicable accounting standards.

All figures in this Report are denominated in U.S. Dollars unless otherwise stated.

Deloitte Canada Inc. was engaged by the Aion Foundation as an advisor to support strategic planning and defining the organization's transparency mandate. This Report was prepared by the Aion Foundation with strategic guidance from Deloitte, and per audit regulations does not constitute a review or attestation to the financial data.

Letter from Matt



When we first approached the community for support in launching the Aion Project one year ago, we committed not only to an unwavering focus on engineering excellence but also to a higher standard of accountability and transparency. In building the foundational technologies that will power tomorrow's internet, we intend to embed these principles into our organizational DNA, as well as our system design. Eventually, we hope our peers will follow.

The Aion Community is made up of a growing and dynamic ecosystem of participants, including, but not limited to, the Aion Foundation. Within that ecosystem there are engineers and developers across four continents, representing numerous companies and individuals, as well as thousands of computers mining the Aion Network. Although we could write at length about these community activities, this report will focus on the Aion Foundation's role within that ecosystem.

I've been incredibly fortunate over these past few years to work alongside an incredible team and more recently, an incredible community. As we prepare for 2019 together, I want to review some of our successes, some of our challenges, and lay out our goals that we'll be looking for you to support.

Looking back over these past 18 months, we published the Aion white paper, launched the public Aion Kilimanjaro network, built the first trustless bridging mechanism to migrate the AION ERC20 tokens to the native AION coin, restructured our company into the Aion Foundation, and saw the beginning of our community growth strategy working; to name a few.

Looking forward, we understand that the Aion Network's success will come from three primary factors:

1. Industry leading technology and engineering execution;
2. Faster user adoption relative to our peers; and
3. Trustworthy and sustainable governance at the Aion Foundation.

The framework we lay out in this Report will address these factors individually and collectively and will provide you with insight into our financial health.

In addition, you'll continue seeing more outcomes of our engineering work, including the long-anticipated Aion Virtual Machine as a significant improvement to network performance and tooling, a new design for hybrid consensus, further proof of scalable interoperability, and a massive security improvement to the network. With these technical milestones, we also intend to reach out more actively and include you in discussions, so we can ensure we're making the best decisions with input from contributors and users in the Aion Community.

As excited as I am about our journey so far, I also recognize that we have made mistakes and that we have more to learn. The Aion Project is still underperforming many of its peers on some important metrics, but we expect that our renewed strategy and sustained focus will quickly close that gap. Aion is not only a technology but also a collection of people that I would put up against any other in this industry. Our collective focus on engineering is increasingly supplemented by more market awareness and user adoption, and we expect that we'll be able to demonstrate a unique approach to growth that is not fueled by hundreds of millions of dollars of token sale proceeds being thrown indiscriminately into the wild. You'll note that our strategy is already starting to bear fruit with the first third-party tools and dApps in the pipeline being built and coming live this year.

As a project, we've been somewhat quiet with our perspectives and in defense of our approach. That will change. Over the past year building Aion, we've had the unique opportunity to observe our peers; some of whom are solving essential problems the right way, but too many of whom have left outside observers with a bad taste in their mouth. We plan to lead by example and set a new standard in accountability.

We commit that our focus is persistent, our philosophy disruptive, and our approach responsible as we put our best foot forward to solve the grand challenge of building infrastructure for a better future.

In service of the cause,

Matt

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Glossary

Aion Project

The collective term for the community development of the Aion Network

Aion Network

The Aion blockchain and related technical infrastructure

Aion Foundation (the "Foundation")

The organization that stewards the Aion Project

Aion Community

Collective term for the members of the Aion ecosystem, including engineers, users, miners, developers, coin holders, third parties, and the Aion Foundation

AION

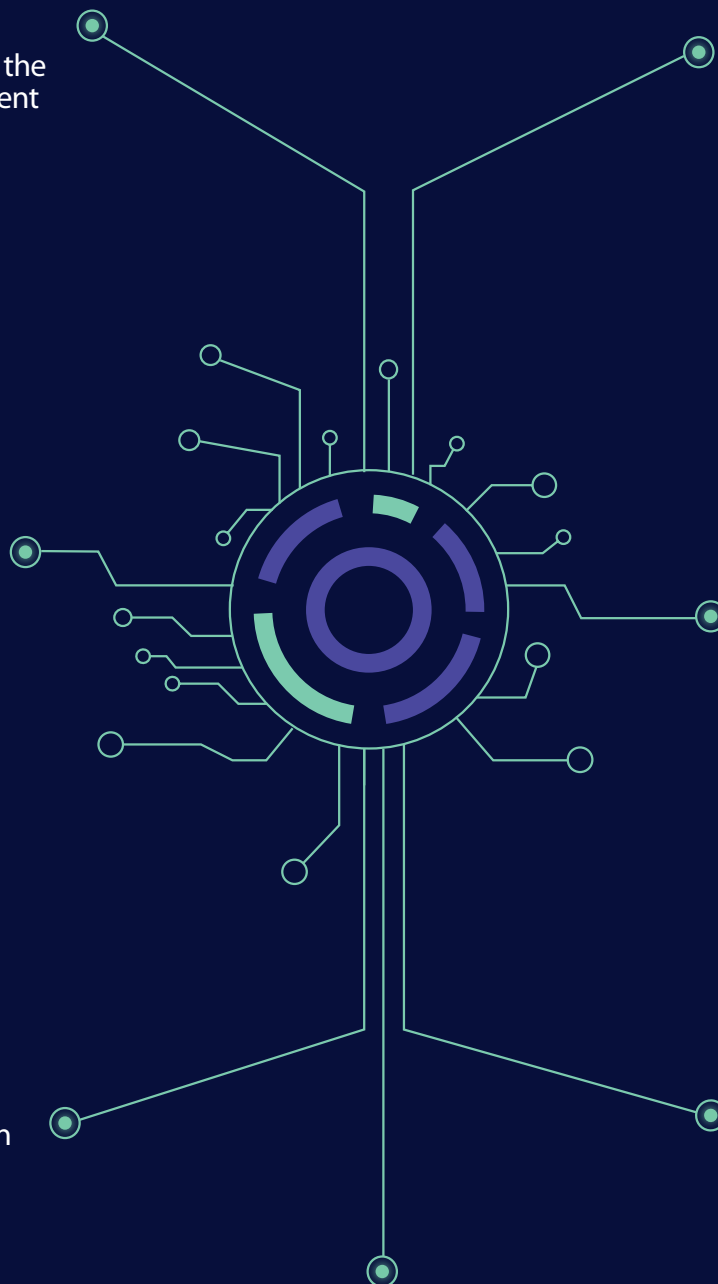
The cryptocurrency used to power the Aion Network

Nuco Networks Inc.

A wholly owned subsidiary of the Aion Foundation, based in Toronto, Canada

Nuco Global Inc.

A wholly owned subsidiary of the Aion Foundation, based in Barbados





Introduction

In the 10 years since the inception of the blockchain industry, much has been said about the potential benefits and societal impacts these technologies will have on the world. At its core, this industry promises a world where power and agency have shifted away from centralized monopolies into the hands of individuals, and where new decentralized structures have taken their place with entrenched accessibility, privacy, and transparency in their designs.

The emergence of blockchain technology has created a new way for people to find agreement, enabling vastly new business models, and entirely new industries.

Much of this promise though, has yet to be realized. Too much of the focus has been on short term profits, and too much of the behavior has been ironically opaque. Beyond leadership in technological development, the Aion Foundation plans to lead in setting a new standard of accountability with a focus on long-term impact.

To that end, the Aion Foundation is proud to present the first Aion Foundation Report, which captures the period between the AION token sale and October 31, 2018.

This Report will serve the purpose of providing insight into the internal operations, metrics, and strategies of the Aion Foundation, including:

- **A review of the Aion Project's story contextualized with the philosophies and core beliefs that direct its strategy**
- **A description of the Aion Foundation and its structure**
- **A description of the distribution of AION**
- **A summary of the Aion Foundation's finances, its spending practices, and its current financial position**

The purpose of this Report, beyond its content, is to set an important precedent in the blockchain industry for responsible governance and accountability. In living up to these higher standards, the Aion Foundation intends to demonstrate its long-term focus and commitment to its cause and its community.

The Aion Story

The Aion Project was conceived by the team at Nuco Networks, a blockchain development company founded in 2016 by Matthew Spoke, Jin Tu, and Kesem Frank; the three of whom had originally worked together to build Deloitte's Rubix blockchain practice starting in 2014.

Starting with a focus on developing enterprise blockchain infrastructure, the team became very familiar with the challenges and limitations of existing blockchain protocols. Beginning in early 2017, an internal research initiative led to a comprehensive paper describing a different philosophy to develop a public blockchain infrastructure that built on those experienced limitations.

In mid-2017, Nuco Networks formed a Barbados subsidiary, Nuco Global, and set out with the task of proving the viability of that design in its development of the first Aion Network. For the future potential of decentralization to become viable, alternative approaches to network scale and protocol interoperability are needed. The Aion Project is resolving these challenges and has meaningfully demonstrated progress with the launch of the Aion Kilimanjaro network in 2018, followed by the associated development of Aion bridging technology to link different protocols together.

In order to continue at the cutting edge of this industry, and to ensure that the Aion Network evolves as a network for

broad adoption, the Aion Foundation was formed to promote and support a competitive focus on engineering excellence, go-to-market differentiation, and a collaborative approach to building alongside an ecosystem of contributors.

Engineering Excellence

Most notable in working in this industry, the Aion team noted a lack of discipline and engineering professionalism among many other public network projects. If meaningful improvements were to be made at a faster pace than its peers, professional engineering execution would need to be at the core of the Aion Network.

Originally led by co-founder Jin Tu, and increasingly by a world-class team of engineers and researchers, the Aion Project's core engineering has demonstrated a relentless focus on excellence.

Reflected in the engineering culture of the Aion Foundation's teams, this higher standard has attracted a strong and vibrant ecosystem of engineering contributors to the Aion Project. Whether working on original components from the Aion whitepaper, or researching new approaches to solving some of the remaining obstacles limiting mainstream readiness, the Aion Project will continue to prioritize this core pillar.

**Bitcoin
Whitepaper
Release**

October 2008



January 2009



**Bitcoin
Network
Launch**

**Ethereum
Whitepaper
Release**

Late 2013



September 2014



**Rubix By
Deloitte
Formed**

**Ethereum
Network
Launch**

July 2015



May 2016

**Nuco
Networks
Formed**

Go-to-market Differentiation

In developing an open and decentralized infrastructure for future businesses to be built on, it is critical that the approach be inclusive and user-focused. The Aion Foundation's approach has been to disproportionately work to understand the requirements of developers and build an approach that centers around their experience.

Beyond financial alignment, developers will opt to build their businesses on infrastructure they believe in, alongside teams that prioritize their needs, and who have proven engineering capabilities. With that, the Aion Project continues to capture the attention of developers around the world.

In parallel to this approach, the Aion Foundation has also developed significant relationships with strong global teams building critical infrastructure and products to reinforce the value of the Aion Project for its users. Many of the projects are under development as of the writing of this Report.

Ecosystem Collaboration

Much of the success attributed to the Ethereum project has been measured by the notable community effect it has created. Although on its own this is not sufficient, this a critical piece to building a sustainable ecosystem around an open

source system. The Aion Project is no different.

The Aion Foundation has helped create the beginning of a truly organic community of contributors, users, and believers; all of whom are instrumental to establishing the Aion Project for long-term success.

In its role as steward for the Aion Project, the Aion Foundation will continue to provide leadership and vision to this community, but has already recognized the growing role of ecosystem members in evangelizing and further developing the maturity of the network; not least of which are the Aion miners who manage the system integrity and its related upgrades.



The Aion Foundation

The Aion Project has gone through a significant evolution since its inception and whitepaper.

In July 2018, a decision was made to transition operations from Nuco Global Inc., the original corporate entity that gave rise to the Aion Network, to the Aion Foundation, the focus of which is to advance research, development and community building activities related to the Aion Network protocol. The Aion Foundation is incorporated as a foundation company under the laws of the Cayman Islands.

The structure of a foundation was selected because it aligned with the Aion Project's overall strategy. As indicated during the AION token sale in October 2017, for the Aion Project to truly and fully represent the interests of the Aion Community, and to create an open and inclusive ecosystem, a restructuring from a corporate structure to a non-profit foundation model would be essential. By not focusing on generating revenue or profits for shareholders, the Aion Foundation is free to pursue its mission of promoting and supporting a decentralized blockchain network for the broader benefit of the Aion Community.

The Aion Foundation has a board of directors to manage the business and affairs of the foundation company. The board currently has two directors, Matthew Spoke and Jin Tu, who are two of the original founders of the Aion Project, with the intention to grow to include representation from the Aion Community. The board intends to meet at least quarterly to review and approve financial statements, budgets and material transactions.

The Aion Foundation is forming a Technical Steering Committee (the "Aion TSC") to represent the Aion Community and to provide the technical direction for the Aion Network. The Aion TSC will meet regularly to set engineering workflows, milestones, roadmaps and release dates, as well as review and approve engineering proposals from the Aion Community. The Aion TSC intends to operate transparently, collaboratively, respectfully and democratically among its members.



AION Distribution

On October 11, 2017, 465,934,587 AION tokens were minted on the Ethereum blockchain following the completion of the AION token sale.

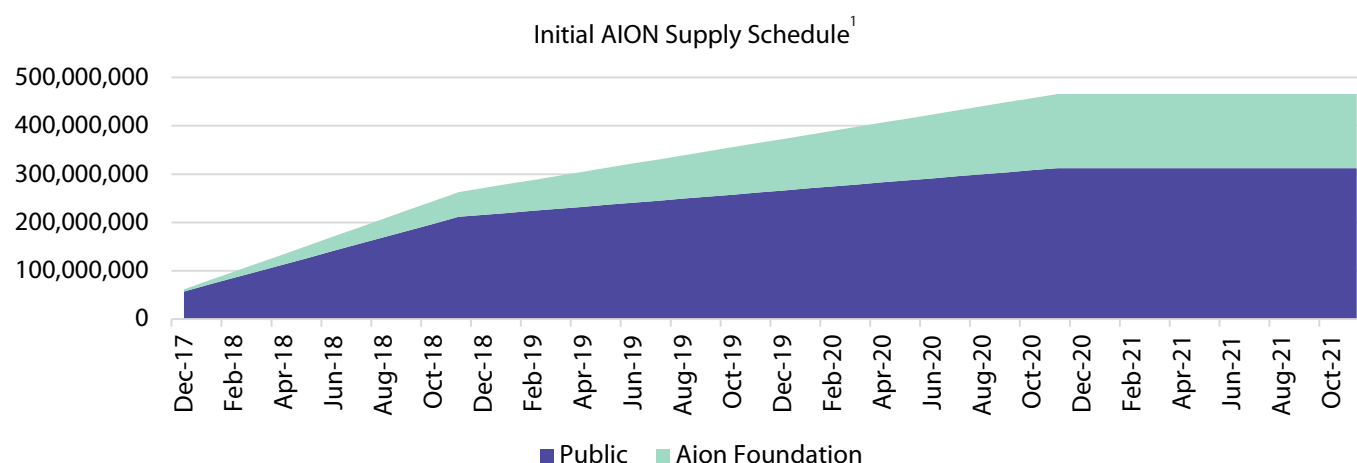
Up until December 20, 2017, public holders of AION were given the option to lock up their holdings in a 12-month distributing smart contract, called the Public Token Release Schedule ("Public TRS"), whereby holders would receive their original holdings plus an additional amount of AION pro-rata on a monthly basis, ending in November 2018. The intent of the Public TRS program was to incentivize longer-term commitment among the Aion Community.

At the same time, AION allocated to the Aion Foundation, the founding company (Nuco Global Inc.) and early supporters were mandatorily locked into a 3-year distributing smart

contract, called the Private Token Release Schedule ("Private TRS"), whereby parties would receive their original holdings plus an additional amount of AION pro-rata on a monthly basis, ending in November 2020. The intent of the Private TRS program, which was self-imposed, was to properly motivate long-term commitment to the Aion Project by the Aion Foundation, founding company and early supporters.

On April 25, 2018, the Aion Kilimanjaro network launched, which saw the commencement of mining on the Aion Network. The Aion Network's monetary policy is structured based on a 1% annual inflation rate (as described in Aion's Monetary Policy Paper), with newly minted AION coins rewarded to miners as an incentive mechanism for providing hashpower and security. As of October 31, 2018, approximately 2,255,559 AION coins had been rewarded to miners.

AION Distribution at October 31, 2018	Circulating Supply	To be released through TRS	Circulating + Locked
Aion Foundation ¹	45,372,695	106,701,150	152,073,845
Public	199,006,668	114,854,074	313,860,742
<i>Subject to Release under Public TRS ending November 2018</i>		9,824,695	
<i>Subject to Release under Private TRS ending November 2020²</i>		105,029,379	
Total Supply³	244,379,363	221,555,224	465,934,587



Notes:

¹ For illustrative purpose only; does not contemplate AION distributions by the Foundation

² AION subject to the Private TRS not under the control of the Aion Foundation

³ Does not include AION rewarded to miners, which represents a 1% inflation rate per annum

Finance Introduction

The Aion Foundation's financial management practices have been structured to maintain strict discipline on spending behavior, while maintaining exposure to AION on its balance sheet.

Unless otherwise noted, all figures are denominated in USD and are consolidated summaries of the Aion Foundation and its subsidiaries.

The Foundation's finance team is responsible for overseeing the following functions as it relates to the Foundation and operating subsidiaries' finances:

- Short and long-term budgeting & forecasting
- Financial planning and analysis
- Creation of, and adherence to, proper financial controls
- Treasury management
- Tax and reporting compliance

The finance team maintains budgets for operating spend (fiat, BTC, ETH) and for AION specific disbursements. Budgets are approved by the Board of Directors and reviewed on a monthly basis in comparison to actuals.

Ongoing operational cash requirements are reevaluated on the same frequency to determine whether more capital is required within the Foundation.

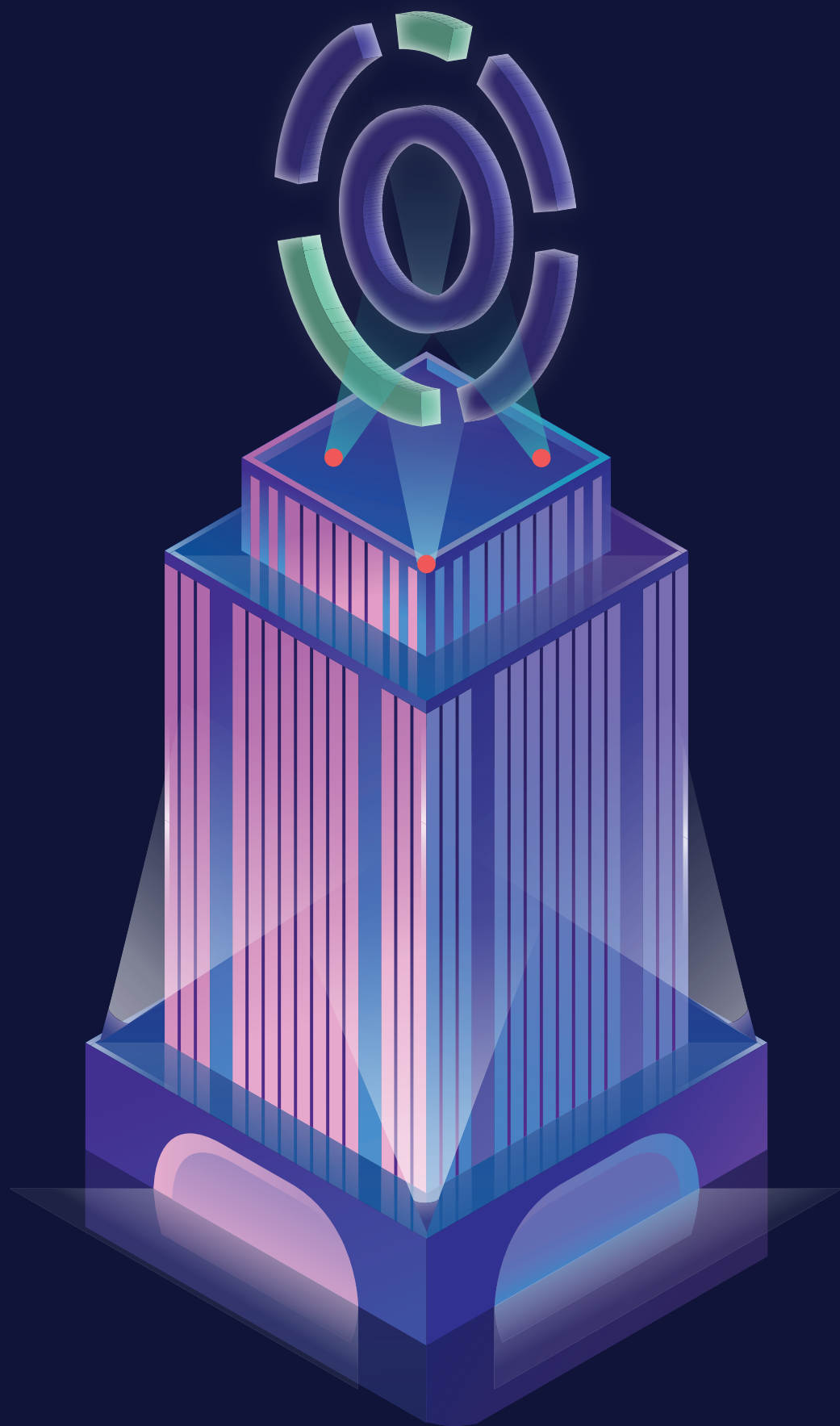
The Aion Foundation allocates budgets (fiat, BTC, ETH, and AION) within the following categories:

- Compensation & Employee Incentives
- Marketing & Ecosystem Development, including Grants and Bounties
- General & Administrative
- Strategic Investments

All significant spending decisions, regardless of funding currency (fiat, BTC, ETH, or AION), are reviewed and approved by the Aion Foundation board of directors.

From a treasury management perspective, the Foundation aims to maintain a mix between fiat currency and cryptocurrency (BTC and ETH), with consideration to both short-term financial obligations and exposure to the broader cryptocurrency market.

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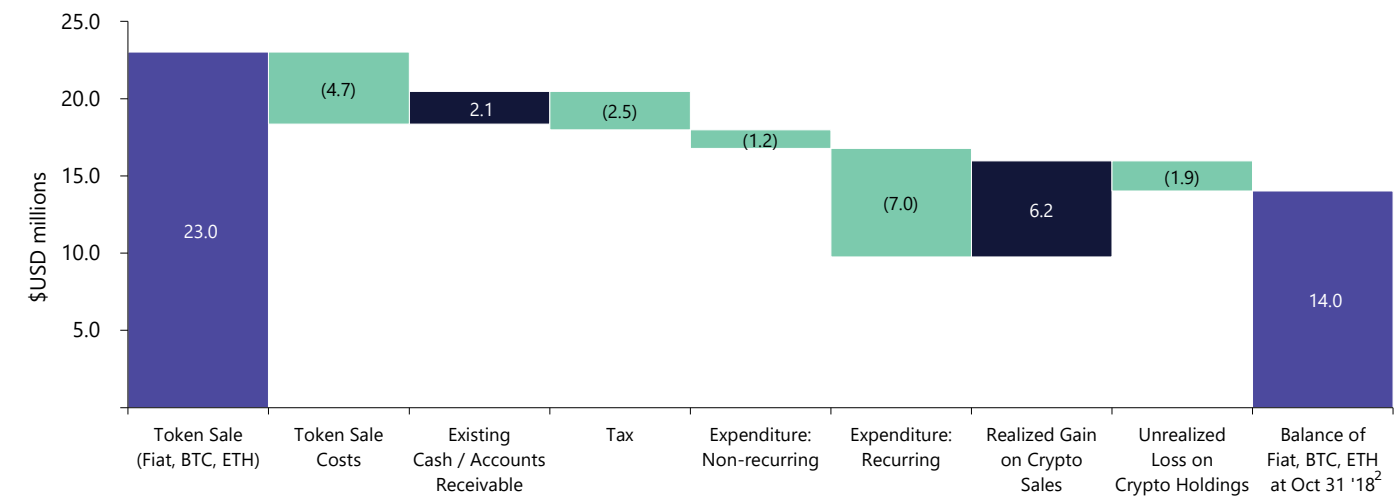


Financial Backstory

In October of 2017, the AION token sale was completed, raising approximately \$23 million USD equivalent through a combination of fiat, BTC, and ETH.

Figure 1-1 highlights significant areas of capital inflows and outflows, bridging from the token sale to October 31, 2018.

Figure 1-1: Bridge - Token Sale to October 31, 2018 (\$USD Millions)¹



Please note that the balance of fiat, BTC and ETH noted above is as of October 31, 2018 and differs as of the date of this Report due to fluctuations in cryptocurrency prices and operating spend.

Notes:

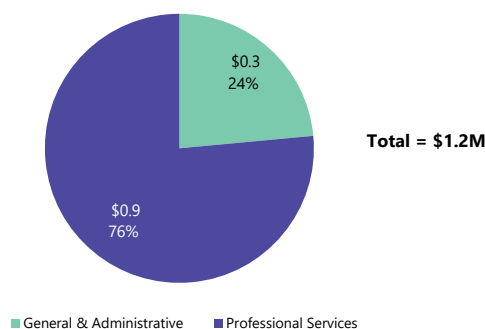
- ¹ The above Figure 1-1 does not include the Aion Foundation's holdings, disbursements, or unrealized gains or losses of AION. Furthermore, it does not include events subsequent to October 31, 2018.
- ² The USD equivalent of BTC and ETH at October 31, 2018 is based on exchange rates sourced from www.onchainfx.com.

The following describes in further detail the major categories noted in Figure 1-1:

- **Token Sale Costs:** The token sale was completed with the assistance of third parties with experience and expertise in token launches, structuring, software and smart contract development, security audits, marketing and project management. The majority of token sale costs were success fee based.
- **Existing Cash/Accounts Receivable:** Represents existing cash and short-term receivables prior to the token sale.
- **Tax:** Although the Aion Foundation is structured as a non-profit organization, approximately \$2.5 million in taxes were paid in Canada and Barbados as a result of intellectual property transfer, the token sale, and corporate reorganization to the foundation structure.
- **Expenditure - Non-recurring:** Approximately \$1.2 million was spent on items which are not expected to recur, primarily consisting of legal and professional fees relating to international tax structuring, the token sale and the foundation set up. See Figure 1-2 for a further breakdown by category.

(Figure 1-2)

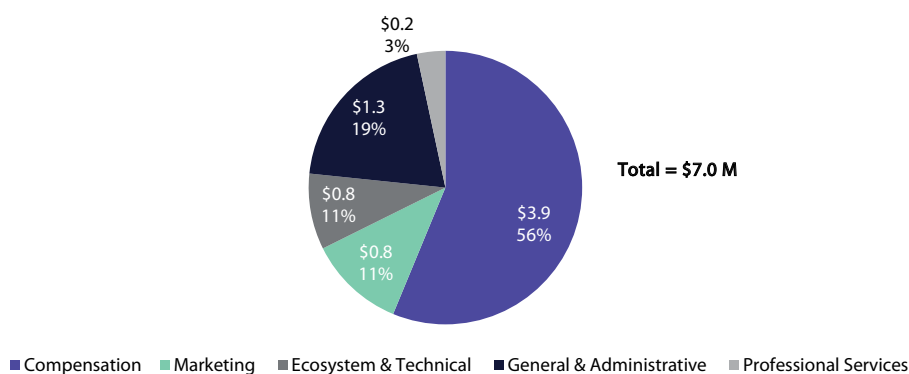
Non-recurring Expenditure Breakdown (\$USD Millions)
(October 1, 2017 to October 31, 2018)



- **Expenditure – Recurring:** Approximately \$7.0 million was spent on recurring, normal course operating activities, the majority of which related to compensation of employees. See Figure 1-3 for a further breakdown by category.

(Figure 1-3)

Recurring Expenditures Breakdown (\$USD Millions)
(October 1, 2017 to October 31, 2018)



- **Realized Gain on Cryptocurrency Sales:** Sales of BTC and ETH for USD were completed over the course of the year, resulting in realized gains of approximately \$6.2 million. The average realized sale price of BTC and ETH were \$8,128 and \$572, respectively.
- **Unrealized Loss on Cryptocurrency Holdings:** Represents the unrealized loss on the Foundation's BTC and ETH holdings as at October 31, 2018.

Spending

The following sections outline the Foundation's fiat and cryptocurrency expenditures as well as AION disbursements during the four months ending October 31, 2018.

Spending Summary (excluding AION)

Highlighted below in Figure 1-4, historical spend has been broken down between recurring expenditures, which represent normal course operating activity, and non-recurring expenditures, which represent one-time items. Non-recurring expenditures are inherently not predictable and will depend on market conditions and other factors.

(Figure 1-4)

Recurring Expenditures				
\$USD	Jul-18	Aug-18	Sep-18	Oct-18
Compensation	\$389,295	\$401,417	\$406,596	\$405,579
Marketing	125,109	56,235	59,093	38,027
Ecosystem & Technical	37,325	18,147	21,449	71,884
General & Administrative	90,901	80,007	84,918	99,998
Professional Services	9,703	42,472	38,540	14,742
Total Recurring Expenditures	\$652,333	\$598,277	\$610,597	\$630,230
Non-Recurring Expenditures				
\$USD	Jul-18	Aug-18	Sep-18	Oct-18
Professional Services	\$60,459	\$101,155	\$254,748	\$176,715
Taxation	559,828	1,021,313	-	-
Other	(49,601)	(14,400)	28,953	38,021
Total Non-Recurring Expenditures	\$570,686	\$1,108,068	\$283,701	\$214,736
Total Expenditures	\$1,223,019	\$1,706,345	\$894,298	\$844,966

- Noted above, the majority of the Foundation's expenditures are compensation related, which make up approximately 66% of total recurring expenditures over the 4-month period.
- Of total compensation expenditures over this period, approximately 61% are engineering and technical related, with marketing, ecosystem and G&A roles making up the remaining 39%. The Foundation's target mix is 70% engineering & technical and 30% non-technical.
- Marketing costs comprise advertising, digital marketing, sponsorship and community events/meet-ups.
- Ecosystem & Technical represent costs associated with ecosystem development such as product & tooling, security audits, engineering integration and wallets.
- G&A costs principally comprise rent, insurance, utilities, equipment, software and information technology, and travel.
- Professional Services principally comprise fees paid to top tier legal and accounting firms in Canada, the U.S., Barbados, and the Cayman Islands.
- Taxes were paid in both Canada and Barbados as a result of intellectual property transfer, the AION token sale, and corporate reorganization.

AION Disbursement Summary

The following table (Figure 1-5) highlights AION disbursements over the four month period ending October 31, 2018. Amounts are denominated in AION and are described further below:

(Figure 1-5)

Summary of AION Disbursements				
AION	Jul-18	Aug-18	Sep-18	Oct-18
Grants & Bounties	1,165,394	145,354	152,256	70,416
Long-term Employee Incentives	32,099	9,715	25,000	-
Ecosystem & Technical	40,000	132,729	119,930	646,318
Marketing	47,500	81,591	85,547	71,768
Total	1,284,993	369,389	382,733	788,502

- **Grants & Bounties:** The majority of AION disbursed was to recipients of grants from the Aion Foundation's Grant & Bounty program. More details on specific grantee awards can be seen at <https://aion.network/bounty/>.
- **Long-term Employee Incentives:** In order to align interests with the long-term success of the Aion Project, a portion of employee compensation is received in AION. The majority of compensation-related AION payments occur in June and December of each year.
- **Ecosystem & Technical:** Costs associated with ecosystem development such as products & tooling, security audits, engineering integration and wallets.
- **Marketing:** Marketing costs comprise advertising, digital marketing, sponsorship and community events/meet-ups.

Financial Position

The following highlights the Foundation's fiat and cryptocurrency holdings (including AION) as of October 31, 2018.

Of the Foundation's BTC and ETH balances, approximately 75% is held in BTC and 25% is held in ETH. Liquidations of BTC and ETH are generally executed based on a similar ratio.

Figure 1-6 also outlines a breakdown of the Foundation's liquid and illiquid AION holdings as of October 31, 2018. The illiquid portion represents the remaining distributions to the Foundation locked under the Token Release Schedule.

(Figure 1-6)

Fiat, Cryptocurrency and AION Holdings as of October 31, 2018

Fiat, BTC and ETH	Units	\$USD	AION Holdings	Units
Fiat	5,822,090	\$5,822,090	Liquid Aion	45,372,695
BTC	994	\$6,239,338	Locked Aion	106,701,150
ETH	10,014	\$1,956,435		
Total		\$14,017,863	Total	152,073,845

Please note that the balance of fiat, BTC and ETH noted in Figure 1-6 is as of October 31, 2018 and differs as of the date of this Report due to fluctuations in cryptocurrency prices and operating spend.

The Foundation intends to allocate its AION holdings among the three categories outlined below. Although the Foundation has yet to determine the allocation of the approximately 152 million AION between these categories, each is described in more detail below in order to provide the Aion Community with the Foundation's current thinking on its long-term plans.

1. Short-Term Operating and Ecosystem

- The intention of this allocation is to drive user and developer adoption within the Aion Project ecosystem over the next three years, mainly through the Grant & Bounty program. Broadly speaking, the Foundation expects to use AION in the following areas:
 - Grants & Bounties
 - Long-term Employee Incentives
 - Marketing & Ecosystem Costs
 - Strategic Investments

2. Long-Term Operating

- The Foundation intends to earmark a portion of its AION holdings for long-term funding of operating costs.

3. Next Generation Reserves

- The Foundation intends to allocate a portion of AION holdings for potential future upgrades and security of the Aion Network.



