

January 31, 2019

Notice to Readers:

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

This Report is for information purposes only and does not constitute an offer to sell, or a solicitation of an offer to buy, any AION tokens or coins.

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.

This Report may include predictions, estimates or other information that might be considered forward-looking. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially. Readers are cautioned not to place undue reliance on these forward-looking statements. The Foundation does not undertake, and specifically declines, any obligation to update such information or statements or to publicly announce the results of any revisions to any such information or statements.

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



2018 was a year full of lessons for many in our industry. We learned the importance of focus, the harsh reality of volatility, and the requirement for patience. Web 3.0 technologies like Aion will no doubt fundamentally change the course of history in a meaningful way, but this will require constant focus and steady hands to reach the necessary breakthroughs standing between us and our goal. To that end, the Aion Foundation has made significant progress towards establishing ourselves for this purpose.

While learning the nuances of operating in such a unique industry, we ensured that we maintained an unwavering focus on maturing Aion technology alongside our community, while also setting an example for responsible governance and trustworthy stewardship.

Our first public report from November 2018 was intended as a one-year recap of our progress since the AION token sale. This report is the first to align our reporting objectives with the Aion Foundation's fiscal year end of December 31st. Moving forward, we intend to publish a report every year, in addition to quarterly summary updates. We do this to continue in our commitment to transparency; in good times and in bad.

Closing the year in 2018 after the last report, the Aion Project saw two more significant milestones accomplished on its technical roadmap as well as some notable accomplishments towards better adoption. The Aion Virtual Machine was released for testing, and a second Aion client implementation, built in the Rust language, was published. Both of these are significant engineering feats respectively, and are illustrations of the pace of progress we expect will continue as the Aion protocol evolves in the future.

In addition to these milestones, we successfully concluded the Aion Token swap, one of the most successful token swaps ever with over 96% participation within 12 weeks. The Aion Project is now supported by an ecosystem of over ten exchanges and eight wallets. Finally, notable community members Nodesmith (Node Hosting), Northern Block (Titan IDE) and BlockXlabs (AIWA Wallet) released into production the fundamental suite of tools any developer needs to build on the Aion Network.

Today, we continue to strive for the Aion Network to be among the top 10% of decentralized protocols in development. We're excited that many in the industry are starting to take note that we have the capabilities to do just that within our ecosystem and that the quality of code and people speak for themselves.

This year will be critical for the Aion Project and its peers. 2019 will require proof of delivery on technical milestones previously committed to and will highlight a separation between projects meeting that bar and projects falling short. The Aion Project is showing every indication of exceeding that bar. That said, in addition to the work of the Aion Foundation and the community of companies and developers working alongside us, our ecosystem needs to grow in its appeal to new entrants coming into the blockchain industry. We will continue to work to position the Aion Project in this regard.

In all the chaos of the blockchain industry today, I continue to tremendously enjoy the work we're doing and the great people with whom I collaborate. Our conviction towards a vision of web 3.0 is stronger than ever, and we will not stop until we accomplish our goal.

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



AION Distribution

The following outlines the distribution of AION as at December 31, 2018, inclusive of mining rewards distributed by the Aion Network.

The Public Token Release Schedule ("Public TRS"), as described in the Aion Foundation Report published on November 30, 2018 (the "November 2018 Report"), was completed, with its last distribution on November 12, 2018.

The Private Token Release Schedule ("Private TRS"), also described in the November 2018 Report, will continue to distribute AION on a monthly basis until November 2020.

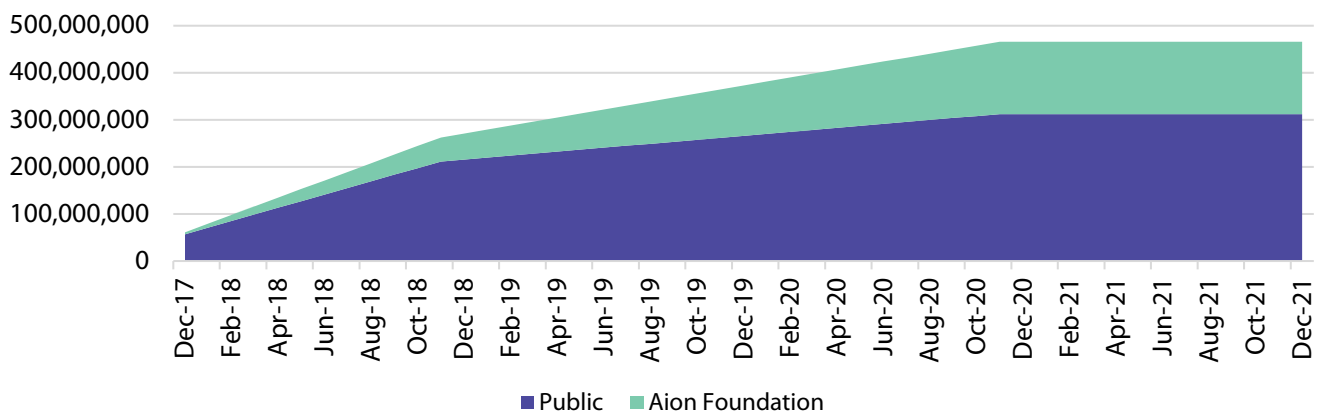
From the launch of the Aion Kilimanjaro network on April 25, 2018 to December 31, 2018, approximately 3 million AION have been mined. Approximately 9 million AION are expected to be mined between January 1, 2019 and November 30, 2020, which is in line with a 1% annual inflation rate as described in Aion's Monetary Policy Paper.

Figure 1

AION Distribution at December 31, 2018	Circulating Supply	Locked Supply	Circulating + Locked
Aion Foundation ¹	49,566,149	98,165,058	147,731,207
Public	224,585,513	105,658,665	330,244,178
<i>Remaining under Private TRS ending November 2020²</i>		96,627,028	
<i>Expected Mining Rewards until November 2020</i>		9,031,637	
Total Supply	274,151,662	203,823,723	477,975,385

Figure 2

Initial AION Supply Schedule



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

Spending

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

Spending Summary (excluding AION)

Highlighted below in Figure 3, 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. Non-recurring expenditures in Q4 2018 were significantly lower than in Q3 2018 principally due to high taxes paid as well as professional service costs expended during Q3 2018 as a result of the corporate reorganization, as described in the November 2018 Report.

Figure 3

Recurring Expenditures					
\$USD	Q3 2018	Oct-18	Nov-18	Dec-18	Q4 2018
Compensation	\$1,197,308	\$405,579	\$404,771	\$380,699	\$1,191,049
Marketing	240,437	38,027	34,966	46,626	119,619
Ecosystem & Technical	76,921	71,884	5,998	20,000	97,882
General & Administrative	255,826	99,998	122,605	75,131	297,735
Professional Services	90,715	14,742	15,149	8,354	38,245
Total Recurring Expenditures	\$1,861,207	\$630,230	\$583,490	\$530,810	\$1,744,530

Non-Recurring Expenditures					
\$USD	Q3 2018	Oct-18	Nov-18	Dec-18	Q4 2018
Professional Services	\$416,363	\$176,715	\$0	\$42,000	\$218,715
Taxation	1,581,141	-	-	39,716	39,716
Other	35,049	38,021	99,791	53,150	190,962
Total Non-Recurring Expenditures	\$1,962,455	\$214,736	\$99,791	\$134,866	\$449,393
Total Expenditures	\$3,823,662	\$844,966	\$683,281	\$665,676	\$2,193,923

- Overall, spending decreased from Q3 to Q4 2018, driven primarily by the reduction of non-recurring expenditures as described above, as well as a decrease in professional services and marketing costs.
- The Foundation recognizes the need to reduce expenditures where appropriate given the current market value of its cryptocurrency holdings. The Foundation is currently working to reduce non-core expenditures and optimize the team in order to extend runway in the event that depressed prices persist for an extended period.
- As expected and similar to Q3 2018, the majority of the Foundation's expenditures are compensation related. Over the six-month period ending December 31, 2018, compensation related expenditures made up approximately 66% of total recurring expenditures.
- Of total compensation expenditures over the six-month period ending December 31, 2018, approximately 61% were 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.

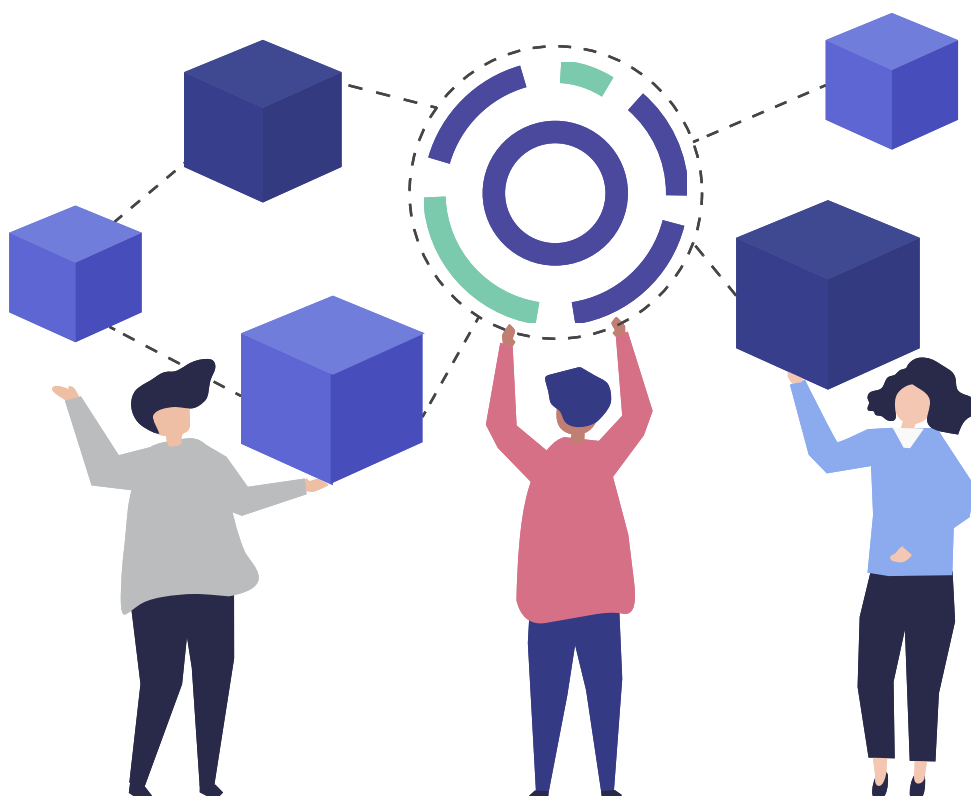
AION Disbursement Summary

The following table (Figure 4) highlights AION disbursements over the six-month period ending December 31, 2018. Amounts are denominated in AION and are described further below.

Figure 4

Summary of AION Disbursements					
AION	Q3 2018	Oct-18	Nov-18	Dec-18	Q4 2018
Grants & Bounties	1,463,004	70,416	1,475,737	698,018	2,244,171
Long-term Employee Incentives	66,814	-	-	785,771	785,771
Ecosystem & Technical	292,659	646,318	-	1,323,112	1,969,430
Marketing	214,638	71,768	-	60,000	131,768
Total Disbursements	2,037,115	788,502	1,475,737	2,866,901	5,131,140

- **Grants & Bounties:** AION disbursed to grant & bounty recipients increased by more than 50% from Q3 to Q4 2018. The increase was driven by a number of factors, including significant progress and milestones being reached by a number of Q3 grant recipients, new grants being awarded in Q4, as well as a lower average AION price. More details on specific grantee awards can be seen at <https://aion.network/bounty/>.
- **Long-term Employee Incentives:** The majority of compensation related payments in AION to employees occur in June and December of each year. Although the majority of employee incentive payments are scheduled for June and December, depending on circumstances, disbursements may be made in the interim months as well.
- **Ecosystem & Technical:** Costs associated with ecosystem development such as products & tooling, security audits, engineering integration and wallets. AION disbursed in Q4 2018 increased from Q3 2018 principally due to increased ecosystem and technical tooling work as well as to a lower spot price of AION in Q4 than in Q3 2018.
- **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 December 31, 2018.

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

Figure 5 also outlines a breakdown of the Foundation's liquid and illiquid AION holdings as of December 31, 2018. The illiquid portion represents the remaining distributions to the Foundation locked under the Private Token Release Schedule.

Figure 5: Fiat, Cryptocurrency and AION Holdings as at December 31, 2018

Fiat, BTC and ETH	Units	\$USD	AION Holdings	Units
Fiat	4,473,133	\$4,473,133	Liquid Aion	49,566,149
BTC	994	\$3,736,506	Locked Aion	98,165,058
ETH	9,987	\$1,345,449		
Total		\$9,555,088	Total	147,731,207

Please note that the balance of fiat, BTC and ETH noted in Figure 5 is as of December 31, 2018 and differs as of the date of this Report due to fluctuations in cryptocurrency prices and operating spend.

The Foundation is in the process of completing its planning for 2019, which will include a budget on use of AION.

In addition to the 2019 planning process, the Foundation is assessing its current cost structure in order to identify areas of cost savings and optimizations with the aim of reducing ongoing expenditures and increase operating runway in the event that depressed cryptocurrency prices persist for an extended period.

The Foundation may use a portion of its AION reserves to further fund operating costs and research and development activities in 2019.

The 2019 operating budget and any potential large disbursements of AION are subject to approval by the Foundation's board of directors.



