CLIFFORD CHANCE

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Report on Token purchases during Block.one's Token Sale
22 July 2021

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Report on Token purchases during Block.one's Token Sale

Block.one engaged Clifford Chance LLP to review whether Block.one purchased or traded Tokens during the Token Sale conducted by Block.one between 26 June 2017 to 1 June 2018 inclusive (including using proceeds from the Token Sale for these purposes) and to provide advice as to the legal and/or regulatory implications of our findings. PricewaterhouseCoopers Limited were instructed by Clifford Chance and Block.one to assist with the Review.[1] DMG Blockchain Solutions Inc. were instructed to extract blockchain data and provide it to Clifford Chance and PwC for the Review.

We were instructed to undertake a review to determine whether or not Block.one purchased Tokens by any means during the Token Sale and to advise on Block.one's associated legal rights. As we set out in more detail in the Report below:

    a) Based on our review of Block.one's use of Ether during the Token Sale, we found no evidence that Block.one purchased Tokens on the primary market. Block.one-owned wallets did not transfer any Ether to the Smart Contract Wallet.

    b) On the secondary markets, we found an apparent trading error whereby a Block.one trader purchased and immediately sold 20,000 Tokens on an exchange in September 2017, losing approximately USD 130 in the process. Based on the information provided and evidence reviewed (including the small size of the transactions and the fact the Tokens were sold within less than a minute), it appears that the purchases were not part of a strategy to signal increasing demand for Tokens and we found Block.one's explanation that they were accidental to be credible. Other than this, we found no evidence that Block.one purchased Tokens on the secondary markets.

    c) We found no evidence of any arrangements between Block.one and third parties by which third parties bought Tokens on Block.one's behalf.

Subject to the purchase described in (b) above and the important assumptions and limitations of our Review, we found no evidence that Block.one purchased Tokens by any means during the Token Sale.

Given our instructions, we focused on whether Block.one purchased Tokens during the Token Sale. Nonetheless, during our Review we did not find any dividends paid to shareholders or any share buybacks during the Token Sale.

The Report below sets out the Terms of Reference for our Review, our Review methodology, the basis for our findings and the limitations and assumptions upon which our findings are based.

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[1] The following terms have the meaning assigned to them in the Report below: "Tokens", "Token Sale", "Review" and "PwC".

(A) BACKGROUND TO THE REVIEW

A.1   Block.one conducted a sale of tokens over 341 days from 26 June 2017 to 1 June 2018 inclusive (the "**Token Sale**"). It sold 900 million ERC-20 compatible tokens (the "**Tokens**") on the Ethereum blockchain, which were governed by a related ERC-20 smart contract (the "**Smart Contract**").

A.2   During the Token Sale, Block.one stated on its website that:

> "[D]*uring the entire* [Token Sale]*, block.one will not do any of the following:*
> *block.one will not purchase* [Tokens] *by any means;*
> *block.one will not pay any dividends to its shareholders; and*
> *block.one will not perform any share buybacks*."

A.3   Block.one also stated that it would instruct a third party to conduct a review and release a report that would provide:

> "[F]*urther assurances that block.one has not purchased* [Tokens] *during the* [Token Sale] *or traded* [Tokens] *(including using proceeds from the* [Token Sale] *for these purposes). This report will be made available to the public on the eos.io website*."

A.4   Block.one engaged Clifford Chance LLP[2] ("**Clifford Chance**") in August 2019 to conduct this review and to advise Block.one on the findings and Block.one's associated legal rights (the "**Review**"). PricewaterhouseCoopers Limited ("**PwC**") were instructed by Clifford Chance and Block.one in November 2019 to assist with the Review. DMG Blockchain Solutions Inc. ("**DMG**") were instructed to extract blockchain data and provide it to Clifford Chance and PwC for the Review.

A.5   It is understood that Block.one made the commitment described above voluntarily, not because of any specific legal or regulatory obligation. Our Terms of Reference (described below) were set in the context of Block.one's commitment, rather than any specific legal or regulatory obligation or prohibition.

A.6   Clifford Chance has undertaken other work for Block.one in the past, including representing Block.one in the United States. The Clifford Chance team working on this Review is a different team led from London. Prior to being instructed to conduct the Review, the Clifford Chance London team working on the Review had not undertaken any substantial work for Block.one and had not met or spoken with any of the Block.one personnel interviewed in the course of this engagement. In addition, during the Review no member of the Clifford Chance London team working on the Review has spoken with any interviewees outside of this engagement.

A.7   This report has been prepared by Clifford Chance, with the assistance of PwC, in order to set out the factual findings of the Review (the "**Report**"). The factual findings of the

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[2]   Clifford Chance is a global law firm with expertise and experience in conducting complex investigations. The Clifford Chance team working on the Review comprised qualified lawyers and an in-house team of forensic accountants, based in the firm's London office.

Review are based on the procedures and analysis performed by Clifford Chance and PwC. PwC's procedures focused on fiat currency transaction records; records of transactions with exchanges and OTC brokers;[3] significant outgoing transactions in fiat and cryptocurrency; and background information relating to cryptocurrency market prices, Token prices, and certain counterparties. PwC's procedures and findings have been incorporated into this Report. PwC has reviewed and commented on all sections of the Report drafted by Clifford Chance.

A.8   Clifford Chance and PwC took responsibility for different workstreams. To coordinate our respective workstreams and execute the scope of the Review, we had regular discussions regarding progress and emerging findings. We also coordinated with one another to prepare for and jointly attend interviews. We shared summaries of our work product with one another as the Review progressed. At the same time, each firm remained responsible for its own workstreams.

A.9   Clifford Chance required Block.one's co-operation during the Review, including but not limited to provision of information and documents and access to interviewees. In Clifford Chance's view, Block.one provided the Review team with a high degree of co-operation throughout the Review. It did not seek to influence the Review findings in any material respect. Requests for documents and information held by Block.one were met with a thorough response and interviewees co-operated with the Review team.

A.10   This Report does not contain identifying information such as names of individuals. To the extent possible, it does not disclose information that could serve to identify a customer, employee, contractor or other natural person, unless such disclosure is necessary in relation to the issues discussed in the Report. This Report also anonymises entities such as exchanges and third party companies.

A.11   Clifford Chance, PwC and DMG do not assume any responsibility to any parties other than Block.one. No liability is accepted towards any third party or for any action taken in relation to the Report's contents. No reader of this Report shall bring a claim against Clifford Chance or PwC relating to access to this Report or the information used to prepare this Report.

A.12   The contents of this Report are based on consideration of the information and documents provided by Block.one and third parties or our own research, as described in this Report. No representation or warranty is given as to the accuracy or completeness of any information or documents that we have used in the preparation of this Report. We reserve the right to amend this Report should further material information become available to us.

A.13   This Report sets out the procedures and analysis performed by Clifford Chance, a global law firm, and PwC, a Hong Kong member firm of the PricewaterhouseCoopers network. PwC's assistance to Clifford Chance did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants or

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[3]   In this Report, "OTC brokers" means third parties with whom Block.one had a trading relationship, where the transactions (price, amount, etc.) were private and were not reported to the wider market.

their respective international equivalents (collectively referred to as "assurance standards"). As a result, PwC does not express any assurance (as that term is defined in the aforementioned assurance standards) with respect to the work or the information upon which its work was based.

A.14 We set out the Terms of Reference, methodology and findings of our Review below. Our Review was subject to a number of important limitations and assumptions, which are set out at Annex A. These include: that we relied in part upon certain information provided solely by Block.one (including, but not limited to, information that, due to its nature, could not be verified against independent corroborative information); and that our Review was subject to certain limitations in the data held by Block.one and various third parties. The various assumptions made during the Review included judgments on aggregation of transactions, transaction counterparty details, applicable currency types and the arm's length nature of transactions.

(B) TERMS OF REFERENCE

B.1 An extract from the Terms of Reference for the Review is at Annex B.

B.2 Other allegations have been made about Block.one, including in relation to the EOSIO software and the EOS blockchain and in litigation in the United States. Clifford Chance is not instructed in relation to that litigation. Anything not within the Terms of Reference was outside the scope of the Review. See also F.7 and F.11 in this regard.

(C) BACKGROUND TO THE TOKEN SALE

C.1 All purchasers of Tokens on the primary market (i.e. from the Smart Contract) were required to agree to the terms of the Token purchase agreement, initially published on 22 June 2017 and updated on 4 September 2017 (the "**Purchase Agreement**").

C.2 On the primary market, Tokens could only be purchased with Ether ("**ETH**"), another digital asset.[4] Tokens were sold in Dutch-style auctions, with a fixed number of Tokens available in pre-determined periods ("**Contribution Periods**"):

(a) 200 million Tokens were sold during the first five days of the Token Sale, constituting one continuous Contribution Period; and

(b) Thereafter, 700 million Tokens were split evenly into 350 consecutive 23-hour Contribution Periods of 2 million Tokens each.

C.3 All purchasers buying Tokens from the Smart Contract were required to send ETH to a single wallet (the "**Smart Contract Wallet**"). There was a corresponding address, which Block.one informed us defined all Tokens issued during the Token Sale, including their name and supply (the "**Token Address Wallet**"). Block.one withdrew

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[4] In this Report, the following terms are used interchangeably to refer to blockchain-based digital assets held in digital wallets or exchange accounts: cryptocurrencies, tokens (as distinct from the Tokens sold through the Token Sale), digital assets.

ETH from the Smart Contract Wallet into one multi-signature wallet (the "**Funding Wallet**"), and from the Funding Wallet into a number of separate wallets.

C.4   At the end of each Contribution Period, the fixed number of Tokens could be claimed pro-rata by each wallet that contributed to the Smart Contract Wallet in that period (the "**Contributing Wallets**"), in proportion to its share of the total ETH contributed to that period. Therefore, the more ETH contributed to a period the higher the price of Tokens, and the price of Tokens varied according to demand. Contributors were not required to claim Tokens during the Token Sale, and some contributors did not.

C.5   When the Token Sale ended on 1 June 2018, the Smart Contract Wallet had received ETH 7,211,776.14.

C.6   Tokens were transferrable on a peer-to-peer basis and also on third-party operated platforms during the Token Sale. As a result, secondary markets developed, separate from the Smart Contract. We compared the price of Tokens on the secondary markets against the price realised through primary market sales, as follows:[5]

**Primary vs. Secondary Markets
Price per Token in ETH**

(D) REVIEW METHODOLOGY

D.1   We sent Block.one over 150 separate requests for documents, information or confirmations ("**Information Requests**"). We also extracted data from the blockchain and conducted our own research.

D.2   In total, the Review analysed:

D.2.1   approximately 800 megabytes of structured and unstructured data, which included: documents provided by Block.one (including bank and securities account statements, contracts and corporate documents); activity statements

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[5]   Primary market prices were calculated by dividing total ETH contributions for each Contribution Period by the number of Tokens available in the corresponding Contribution Period. Secondary markets reference prices were available as at 23:59 UTC each day. Due to timing differences (i.e. price at a specific time versus price resulting from a 23-hour Contribution Period), the comparison provides only directional trend information.

sent by OTC brokers; and activity records extracted by Block.one from exchanges;[6]

D.2.2   over 7.3 million rows of transaction data for Block.one's Ethereum wallets (including the Smart Contract Wallet and Token Address Wallet) provided by DMG;

D.2.3   Approximately 85,000 rows of data that we extracted from Etherscan. This included data for Block.one's Ethereum wallets (excluding the Token Address Wallet) and certain Contributing Wallets;

D.2.4   over 2,000 rows of transaction data relating to Block.one's transactions in Bitcoin (BTC) and BTC fork currencies, extracted from the corresponding blockchain explorers;

D.2.5   information relating to Byteball and NEO wallet transactions, that we reviewed on the corresponding blockchain explorers; and

D.2.6   over 100 online articles, forum posts or comments and other publicly available online sources (in English and other languages), in order to identify material relevant to the Review.

D.3   Block.one provided internally-prepared records of its cryptocurrency transactions. We then verified these records against source data, as follows. This verification was performed for the period 26 June 2017 to 2 July 2018, unless otherwise stated. We reviewed transactions to 2 July 2018 because, although the Token Sale ended on 1 June 2018, this additional month might have shown transactions or arrangements that were entered during the Token Sale but only settled afterwards:

D.3.1   On-chain ETH transactions in Ethereum wallets were verified against the blockchain, for May 2017 to 31 December 2018. That is a wider period than the Token Sale, but it was appropriate given that ETH was the cryptocurrency that could be used to buy Tokens from the Smart Contract, so we wanted to understand Block.one's ETH usage across this wider period. A subset of these transactions were on-chain OTC broker trades, which were verified against broker statements or trade confirmation emails (for 26 June 2017 to 2 July 2018);

D.3.2   On-chain BTC and BTC fork cryptocurrency transactions were verified against the relevant blockchains and Trezor transaction reports. A subset of these were on-chain OTC broker trades, which were verified against broker statements;

D.3.3   Transactions in Ethereum wallets in cryptocurrencies other than ETH were verified against the blockchain;

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6   By structured data we mean data organised into clearly-defined fields within a database, so that its elements can be used for more effective processing and analysis. By unstructured data we mean data that is not organised in a pre-defined manner, such as scanned PDF documents and contracts.

D.3.4   All on-chain transactions in other cryptocurrency wallets that, according to Block.one's internal records, had transactions during the Token Sale (namely Byteball and NEO wallets), were verified against the relevant blockchains;

D.3.5   Exchange and off-chain OTC broker transactions were verified against exchange activity records; and

D.3.6   USD receipts for conversions through OTC brokers and exchanges were reconciled between fiat currency bank statements and OTC broker or exchange activity records.

D.4   For groups of transactions that were not part of Block.one's internally prepared records, we based our analysis on blockchain data for the relevant wallet.

D.5   With regard to fiat account statements, we verified the completeness and accuracy of statements provided by Block.one by tracing transfers between accounts and considering the mathematical accuracy of the documents and any inconsistencies. This identified limited gaps in the periods for which statements were provided and a small number of accounts for which no statements were provided. These points were raised with Block.one and additional documentation was provided or, where statements were not available, explanations were given.

D.6   The Clifford Chance team spent over 1,660 hours and the PwC team spent over 1,650 hours reviewing and considering the material set out in D.2 (this does not include time spent collecting the material, conducting interviews or drafting this Report).

D.7   We also conducted interviews with six Block.one officers who were employed during the Token Sale. After the interviews, follow-up calls with certain interviewees took place or further Information Requests were made, as necessary. In addition, we held calls with three employees who joined Block.one after the Token Sale, to help us understand some of the data provided.

(E) FINDINGS

E.1   In summary, as we set out in more detail in the rest of this Report:

E.1.1   Based on our review of Block.one's use of ETH during the Token Sale, we found no evidence that Block.one purchased Tokens on the primary market. Block.one-owned wallets did not transfer any ETH to the Smart Contract Wallet.

E.1.2   On the secondary markets, we found an apparent trading error whereby a Block.one trader purchased and immediately sold 20,000 Tokens on an exchange in September 2017, losing approximately USD 130 in the process. Based on the information provided and evidence reviewed (including the small size of the transactions and the fact the Tokens were sold within less than a minute), it appears that the purchases were not part of a strategy to signal increasing demand for Tokens and we found Block.one's explanation that they were accidental to be credible. Other than this, we found no evidence that Block.one purchased Tokens on the secondary markets.

E.1.3   We found no evidence of any arrangements between Block.one and third parties by which third parties bought Tokens on Block.one's behalf.

E.2   Subject to the purchase described in E.1.2 above and the assumptions and limitations at Annex A, we found no evidence that Block.one purchased Tokens by any means during the Token Sale.

E.3   Given our instructions, we focused on whether Block.one purchased Tokens during the Token Sale. Nonetheless, while performing the procedures described in this Report, we did not find any record of dividends paid to shareholders or any share buybacks during the Token Sale.

E.4   The detailed findings of the Review consist of responses to 11 key questions, as follows:

1. Did Block.one send ETH to the Smart Contract Wallet?

2. Did Block.one forward any ETH to third party wallets that sent ETH to the Smart Contract Wallet?

3. What was Block.one's relationship with liquidity providers and market makers during the Token Sale?

4. Did Block.one buy or sell Tokens through exchanges or brokers?

5. Did the number of Tokens held in proprietary wallets change during the Token Sale?

6. What did Block.one do with ETH contributed to, or held during, the Token Sale?

7. Were there any significant outgoing fiat or cryptocurrency transactions for unusual purposes which could indicate usage of funds to purchase Tokens?

8. Were any parties incentivised to buy Tokens?

9. What do the Contributing Wallets show?

10. Why did Block.one withdraw ETH during the Token Sale?

11. What practical measures were in place to monitor compliance with the commitment not to purchase Tokens?

1. *Did Block.one send ETH to the Smart Contract Wallet?*

E.5   Based on the information provided about Block.one's Ethereum wallets (see F.1), and the procedures performed, no Block.one-owned wallets sent ETH to the Smart Contract Wallet between 26 June 2017 and 1 June 2018.

E.6   Based on the information provided about Block.one's accounts at exchanges and OTC brokers (see F.2), and the procedures performed, no ETH was sent to the Smart Contract

Wallet from Block.one's accounts at exchanges or OTC brokers between 26 June 2017 and 1 June 2018.

E.7   Our analysis of how Block.one spent ETH during the Token Sale is at Finding 6.

2.   *Did Block.one forward any ETH to third party wallets that sent ETH to the Smart Contract Wallet?*

E.8   We analysed whether any wallets that received ETH from Block.one between May 2017 and the end of the Token Sale sent ETH to the Smart Contract Wallet.

E.9   Five wallets that we were informed belonged to Block.one engineers contributed a combined total of ETH 2.398 (approximately USD 981 at the time) to the Smart Contract Wallet. Two of these five wallets received a combined total of ETH 12.05 (approximately USD 4,175 at the time) from Block.one between 19 June 2017 and the end of the Token Sale, which we were informed was to test the Smart Contract or cover gas or transaction fees. The ETH contributed by engineer wallets was low in value, representing less than 0.000034% of all ETH contributed to the Token Sale. Our Terms of Reference recognised that there would be "*immaterial minimum level transactions…to test technical functionality*".

E.10   Block.one had an arrangement, until 4 September 2017, to pay a company ("**Company Y**") a marketing fee on Token purchases by Company Y's users (see Finding 8). A wallet belonging to Company Y contributed a total of ETH 200.2 to the Smart Contract Wallet, and received the agreed marketing fee from Block.one.

E.11   A wallet that contributed ETH 0.1 to the Smart Contract Wallet during the Token Sale later received ETH 36.39 from Block.one on 24 August 2018, which we were informed was hackathon prize money.

3.   *What was Block.one's relationship with liquidity providers and market makers during the Token Sale?*

E.12   Block.one traded cryptocurrencies, including ETH, through exchanges and OTC brokers during the Token Sale.

OTC brokers

E.13   Interviewees told us that Block.one did not buy Tokens from, or sell Tokens to, its brokers. Block.one told us that it was approached by some brokers who wanted to purchase Tokens directly from Block.one, and that it told the brokers that it could not assist. We understand that the brokers would therefore have had to purchase Tokens from the Smart Contract, on the same basis as other participants in the Token Sale.

E.14   We reviewed contracts between Block.one and certain brokers, which provided for Block.one and the relevant broker to deliver cryptocurrency to each other upon submission of a purchase order. None of the contracts referred to Tokens or the Token Sale. We were informed that, for some brokers, there was no contract and the standard terms on the broker's website applied to Block.one.

Cryptocurrency exchanges

E.15   We were informed that Block.one did not have tailored contracts with any exchanges and that the standard terms on each exchange's website governed the relationship with Block.one.

E.16   We note the following about Block.one's relationship with one of the exchanges ("**Exchange A**"), as we understand that these features were not all part of its relationship with other exchanges:

E.16.1   Exchange A's owner had a minority shareholding in Block.one during the Token Sale;

E.16.2   During the Token Sale, when candidates applied to be block producers on any launched EOSIO-based blockchain, Exchange A was one of the candidates. We were told the selection of block producers on any eventual EOSIO-based blockchain was an independent process that Block.one was not involved in;

E.16.3   Block.one used the margin and funding platforms on Exchange A to borrow and lend cryptocurrency during the Token Sale. It borrowed ETH, paying interest totalling ETH 42.25. Block.one did not lend any ETH. Block.one told us that Exchange A facilitated the transactions and that counterparty details were not disclosed to Block.one. On that basis, there was no evidence to suggest that Block.one could lend or borrow cryptocurrency in exchange for the counterparty's agreement to purchase Tokens. We found no evidence of borrowing or lending activity in the records for exchanges other than Exchange A, or in the records for OTC brokers.

E.17   Based on the data provided to us and the interviews conducted, we found no evidence that the commercial relationship with Exchange A involved the purchase of Tokens by Exchange A on Block.one's behalf.

4. *Did Block.one buy or sell Tokens through exchanges or brokers?*

E.18   We reviewed Block.one's cryptocurrency exchange and broker transactions from 26 June 2017 to 2 July 2018 using the procedures described in this Report (see F.2 and D.3).

E.19   We identified one instance of Block.one buying and selling Tokens on an exchange. On 14 September 2017, Block.one bought 20,000 Tokens with USDT, and then disposed of 20,000 Tokens for USDT. All the transactions took place within the space of one minute. Block.one sold the Tokens at a loss and paid transaction fees, bringing the total loss to USDT 133.38 (USD 134.04).

E.20   The Block.one trader who placed the trades told us the purchase was accidental; they had intended to select a different currency pair on the electronic exchange platform but inadvertently chose Tokens. The trader immediately realised the error and sold the Tokens. This explanation was corroborated in interviews with two other Block.one officers to whom the trader disclosed the trades, and is consistent with the trading data we reviewed. Based on the information provided and evidence reviewed (including the

small size of the transactions and the fact the Tokens were sold within less than a minute), it appears that the purchases were not part of a strategy to signal increasing demand for Tokens and we found Block.one's explanation that they were accidental to be credible.

E.21   20,000 Tokens is, in our view, a *de minimis* number in the context of the potential effect it may have had on demand for Tokens: it is 0.006% of the 356 million Tokens in circulation when the purchase was made;[7] 1% of the 2 million Tokens issued by the Smart Contract in the Contribution Period in which the purchase was made; and 0.09% of the 21.8 million Tokens traded on secondary markets on 14 September.[8]

E.22   Based on the procedures performed and the records provided, we found no further instances of ETH, USD, USDT or other crypto or fiat currency being used to purchase Tokens through Block.one's accounts with cryptocurrency exchanges or OTC brokers.

5.   Did the number of Tokens held in proprietary wallets change during the Token Sale?

E.23   The Purchase Agreement stated that 100 million Tokens would be reserved for Block.one. Block.one told us that it did not initially intend to retain any Tokens but that parts of the blockchain community advocated for this.

E.24   Block.one did not hold the 100 million Tokens during the Token Sale. Instead, the Smart Contract transferred 100 million Tokens to the following wallet, which Block.one told us had no private keys, so the Tokens could not be reclaimed:

0x00000000000000000000000000000000000000b1

E.25   Tokens could, in theory, be purchased on secondary markets using any cryptocurrency. However, because the Tokens were ERC-20 tokens, they could only be stored in Ethereum wallets or third-party operated platforms such as exchange and broker accounts. Based on the details of Block.one's Ethereum wallets and exchange and broker accounts received (see F.1 and F.2), if Block.one purchased Tokens, we would see them in these accounts or wallets. See Finding 4 regarding exchange or broker accounts. In relation to wallets, we reviewed Block.one's Ethereum wallets to identify any Tokens held within them and found:

E.25.1   On 19 February 2018, the Funding Wallet received 18.41 Tokens (then worth approximately USD 176.28) from an address identified on Etherscan as an exchange ("**Exchange B**") address. Etherscan shows that the Tokens have not moved since arriving in the Funding Wallet. We did not identify Token trades on Block.one's Exchange B activity records, or ETH transfers to Block.one's Exchange B accounts on or around 19 February 2018. Block.one personnel said they did not know about these 18.41 Tokens until we identified them, and that they did not pay Exchange B for Tokens. They informed us that it was possible

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[7]   Number of Tokens in circulation at the end of Contribution Period 78, which ended on 14 September 2017 at 6:59:59 UTC.

[8]   Reference volume data is an aggregation of trading volume reported by exchanges over the last 24 hours for the cryptoasset.

that the Tokens were sent to the Funding Wallet by an Exchange B account holder erroneously.

E.25.2 The Token supply created by the Smart Contract at the start of the Token Sale was 1 billion Tokens, 100 million of which were reserved for Block.one. The remaining 900 million Tokens were available to be claimed by contributors. However, contributors were not required to claim Tokens (see C.4), so some of the 900 million Tokens remained unclaimed in the Smart Contract Wallet. In addition, we found receipts into the Smart Contract Wallet of a total of 698,982.98 Tokens (0.08% of the 900 million Tokens distributed during the Token Sale). Most of these Tokens were sent from Contributing Wallets. Where the sender was not a Contributing Wallet, we checked the wallet address against our list of known Block.one wallets (see F.1) and found no matches. Otherwise, as ownership of Ethereum wallets is rarely publicly known, we did not identify the senders. Block.one informed us that it did not buy these Tokens and that they may have been sent to the Smart Contract Wallet by mistake. In total, the Smart Contract Wallet held 3,850,507.83 Tokens as of 2 June 2018, 698,982.98 of which were Tokens received into the Smart Contract Wallet and the rest were Tokens not claimed by contributors (see also E.54.1). Etherscan shows that the last outgoing transaction from the Smart Contract Wallet was on 2 June 2018.

E.25.3 The Token Address Wallet received a total of 154,834.06 Tokens between 1 July 2017 and 1 June 2018. Block.one told us that this could have been because Tokens were sent to this address by mistake, or possibly because individuals sent Tokens to this address as a means of 'burning' them. Block.one also told us that the Token Address Wallet could not do anything beyond follow the instructions of the Smart Contract to distribute Tokens, indicating that the Token Address Wallet could not purchase Tokens. As set out at paragraph E.54.2 below, 154,834.06 Tokens were still in the Token Address Wallet on 2 June 2018. In addition, Etherscan shows that there were no outgoing Token transactions from the Token Address Wallet after 2 June 2018.

6. *What did Block.one do with ETH contributed to, or held during, the Token Sale?*

E.26 We considered how Block.one spent ETH from May 2017 to December 2018 (see D.3.1).

E.27 We verified that all ETH contributed to the Smart Contract Wallet was withdrawn into the Funding Wallet and then into separate wallets. No withdrawals were made from the Smart Contract Wallet during the first five-day Contribution Period, after which ETH was withdrawn on a number of occasions between 1 July 2017 and 13 June 2018.

E.28 ETH withdrawals from the Smart Contract Wallet were the largest source of ETH, but we also included Block.one's other ETH inflows in our analysis. Other sources included ETH receipts from investors in Block.one's equity fundraising rounds, ETH

receipts from conversions of other cryptocurrencies into ETH, and ETH from commercial borrowing arrangements.[9]

E.29   We reviewed all of Block.one's outflows of ETH from May 2017 to December 2018, which included the following:

E.29.1   Almost ETH 7.2 million was converted to fiat or other cryptocurrencies on exchanges or through brokers. This is over 99% of the total contributions to the Smart Contract Wallet, and over 98% of all ETH received by Block.one from May 2017 to 31 December 2018 (excluding ETH received from the commercial borrowing arrangements referred to at E.28).

E.29.2   The remaining ETH outflows included repayment of amounts due under the commercial borrowing arrangements referred to at E.28 (which were repaid in full), investments in certain other digital asset projects, payments to certain third parties and funding costs.

7.   *Were there any significant outgoing fiat or cryptocurrency transactions for unusual purposes which could indicate usage of funds to purchase Tokens?*

Fiat currency

E.30   We analysed Block.one's significant outgoing fiat transactions from 26 June 2017 to 2 July 2018, to assess the possibility that it may have re-routed funds to purchase Tokens. We treated all transactions exceeding USD 500,000 (or equivalent) as significant. We also treated certain transactions below that threshold as significant because Block.one advised that aggregate payments to the same counterparty exceeded USD 500,000. We also conducted some additional aggregation on transactions below the threshold based on counterparty information included in the records provided, but did not identify additional counterparties that exceeded USD 500,000 in aggregate, beyond those already identified by Block.one. We excluded the following from the significant fiat transactions analysis: transfers between accounts owned by Block.one; transfers between Block.one and companies identified by Block.one as its directly or indirectly held subsidiaries or service companies; and fiat currency securities transactions.[10]

E.31   Based on the procedures performed in reviewing significant fiat transactions and subject to the limitations and assumptions in Annex A, we did not identify any fiat currency transactions that were inconsistent with our understanding of Block.one's normal commercial activity (i.e. outside the expected normal course of business for a

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[9]   Block.one had a commercial arrangement from late May 2018 to late June 2018 that enabled it to pre-sell ETH on an exchange before withdrawing it from the Smart Contract Wallet. This would reduce the possibility of Block.one being front-run when it withdrew ETH from the Smart Contract Wallet. We included these ETH transactions in our analysis of Block.one's ETH inflows and outflows. Block.one also arranged USDT credit lines with an exchange during the Token Sale, and this USDT was included in our analysis of whether Block.one bought or sold Tokens through exchanges or brokers (see Finding 4).

[10]   Securities transactions refer to the purchase and sale of securities such as stocks and bonds using fiat currency, as well as related transactions such as dividends and interest. Such securities transactions conducted with Block.one's securities brokers did not provide for a means of purchasing Tokens. They were therefore not within the scope of the Terms of Reference and were not reviewed. Fiat currency deposits and withdrawals to and from securities accounts were in scope and were reviewed.

technology start-up or philanthropic or investment purposes), nor did we identify transactions where fiat currency held in Block.one's bank or securities accounts was used to purchase ETH or Tokens.

Cryptocurrency

E.32   We reviewed all Block.one's outgoing ETH transactions for the period May 2017 to December 2018 (Finding 6). We did not identify any ETH transactions that were inconsistent with our understanding of Block.one's normal commercial activity (i.e. outside the expected normal course of business for a technology start-up or philanthropic or investment purposes).

E.33   We reviewed Block.one's outgoing transactions in all other cryptocurrencies across the period 26 June 2017 to 2 July 2018, in two tranches:

E.33.1   First, we identified and reviewed significant transactions contained in Block.one's internal records on the same basis set out at E.30. Based on the procedures performed and subject to the limitations and assumptions in Annex A, we did not identify any transactions that were inconsistent with our understanding of Block.one's normal commercial activity (i.e. outside the expected normal course of business for a technology start-up or philanthropic or investment purposes).

E.33.2   Second, we took certain limited steps regarding all remaining non-ETH cryptocurrency transactions with third parties. This analysis excluded cryptocurrency conversions as well as repayments of borrowings and any interest on these borrowings. Of the payments made by Block.one reviewed in this tranche, there was one higher-value transactions where the purpose of the transaction remained unclear; on 20 August 2017, Block.one transferred a BTC amount equivalent to approximately USD 233,000 at that time to a wallet for which Block.one does not have ownership details. Given the passage of time, we do not have more information from Block.one about the purpose of the transfer.

E.34   The analysis of both fiat and cryptocurrency transactions considered the counterparty identity and transaction rationale set out in Block.one's internal records and/or the bank or securities statements, where available. We also reviewed contracts relating to key investments and partnerships during the Token Sale, as well as remuneration documentation for certain employees and consultants. Where necessary, we performed internet searches to obtain further information about counterparties. If the purpose of a transaction remained unclear, we obtained clarification by raising questions with Block.one personnel.

E.35   The blockchain data we reviewed and transaction descriptions in Block.one's internal records did not indicate that Block.one borrowed or lent cryptocurrency directly to third parties (i.e. outside the exchange platform described at E.16.3).

8. *Were any parties incentivised to buy Tokens?*

E.36 The publicly-available Purchase Agreement stated that Block.one's employees, equity holders, directors, officers, suppliers and consultants (past, present or future) could participate in the Token Sale on the same terms as all other purchasers, i.e. with their own funds (Article 2.3). Accordingly, the Review did not seek to verify whether, and how many, Tokens were purchased by these parties in their respective personal or corporate capacities. Instead, we considered Block.one's interactions with certain of these parties for indications that they purchased Tokens on Block.one's behalf.

E.37 In summary, based on the procedures described in this Report (including those set out in Finding 7), we found no evidence of arrangements for these parties to buy Tokens on Block.one's behalf. We have set out the main arrangements we considered in this Finding 8.

Marketing arrangements

E.38 During the Token Sale, Block.one had Token marketing arrangements with two companies (Company X and Company Y) in Asia. Block.one paid each company a fee of 4% of the ETH contributed to the Smart Contract Wallet through each company during the first five-day Contribution Period. Company Y also received a 2% marketing fee from the second Contribution Period until 4 September 2017. We verified the fee payments on the blockchain and, other than the agreed fees, found no payments from Block.one into the Company X and Company Y wallets that received the marketing fees.

E.39 Based on the procedures performed and information received, we understand that Company X and Company Y entered into these arrangements for their own commercial benefit and that Tokens were bought by or for the users to whom they marketed Tokens (rather than on Block.one's behalf). We do not consider these arrangements to be inconsistent with Block.one's commitment not to buy Tokens.

E.40 Company X was founded by an individual who was also a minority Block.one shareholder during the Token Sale. This did not change our finding.

Shareholders

E.41 Share issue: Block.one approved subscription applications from a number of shareholders in October 2017. We were told that the subscriptions were agreed during a fundraising round that completed before the Token Sale started, but administrative procedures meant the shares were issued in October 2017, when the Token Sale was underway.

E.42 Share buybacks and dividends: Block.one issued shares to a number of new investors following an investment round that closed in June 2018, after the end of the Token Sale. A round of share buybacks then took place in August 2018. Based on the information we received, the market was first informed of the possibility of share buybacks on 18 June 2018 (after the end of the Token Sale), though no price was set out in that communication. On 30 July 2018, the terms of the buyback were communicated to shareholders. Our review of board resolutions did not identify any references to share

buybacks or dividend payments during the Token Sale. While performing the other procedures described in this Report, we did not identify any dividend payments during the Token Sale.

E.43   Tokens: Block.one personnel informed us that they did not encourage or discourage shareholders from buying Tokens. Based on the material and information provided to us, including at our interviews with Block.one officers (some of whom were Block.one shareholders), we did not find evidence that was inconsistent with what we were told.

E.44   Press.One token sale: we identified Press.One, a platform that operated a sale of a digital asset called PRS in July 2017. We understand that each purchaser of PRS had to structure their contribution as follows: 50% had to be paid in Block.one's ERC-20 Tokens, 30% in ETH and 20% in BTC. One of the individuals associated with Press.One was a minority shareholder in Block.one during the Token Sale. The interviewees we discussed the sale with were unaware that Press.One required purchasers to contribute Block.one's Tokens. Based on the procedures performed, we found no indication that Block.one was involved in the Press.One sale.

Employees

E.45   Block.one informed us that it did not prohibit employees from purchasing Tokens, nor encourage employees to purchase Tokens in their personal capacity, save for US persons (throughout the Token Sale) or Chinese persons (from 4 September 2017), who were prohibited from purchasing Tokens in accordance with the terms of the Purchase Agreement and/or local laws. Block.one did not monitor whether its employees purchased Tokens.

E.46   Block.one knew of one executive who purchased Tokens, as the executive voluntarily disclosed this fact. The executive told us the purchase was made in a personal capacity, was not incentivised by Block.one and that Block.one was not aware of it at the time.

E.47   In addition, a separate executive told us that a member of their family purchased Tokens in the first five-day Contribution Period using their own funds as well as funds personally contributed by the executive.

E.48   We do not consider these to be purchases by Block.one. Block.one employees were permitted to purchase Tokens by the terms of the Purchase Agreement (see E.36), so the possibility of such purchases was made public at the time of the Token Sale.

E.49   We also reviewed a sample of employment and consultancy documentation in effect during the Token Sale. Based on this review, we found no evidence that employees were encouraged or incentivised to purchase Tokens.

Suppliers, co-investors and venture capital partners

E.50   Block.one made significant investments (in fiat and cryptocurrencies) in certain projects and businesses during the Token Sale, including investments as part of its EOS venture capital programme (announced in January 2018) and in digital assets released by other projects. It also entered into contracts with suppliers and vendors.

E.51 Our review of materials related to these arrangements did not identify references to the Token Sale, save that the purpose of certain third party-managed investment vehicles or partnerships that Block.one invested in was to grow and develop any EOSIO-based blockchain and invest in projects or ventures facilitating the use of EOSIO-based blockchains. We asked Block.one about certain of these investment vehicles and were informed that, to Block.one's knowledge, they did not buy Tokens. Our Terms of Reference focused on Block.one's purchases, so we did not look into the transaction history of these investment vehicles further or into whether Block.one had mechanisms in place to monitor whether the projects or investment vehicles it invested in bought Tokens.

9. What do the Contributing Wallets show?

E.52 During the Token Sale, 65,077 wallets successfully sent ETH to the Smart Contract Wallet. The vast majority of Contributing Wallets sent relatively small amounts of ETH; the top 1,000 wallets by total ETH contributed accounted for approximately 89% of the total contributions to the Smart Contract Wallet, whereas approximately 82% of the Contributing Wallets each made total contributions of ETH 10 or less.

E.53 We analysed the list of Contributing Wallets against our list of known Block.one Ethereum wallets and found no matches. Subject to the fact that we were dependent on Block.one to provide us with a list of its wallets (see F.1), this indicates that none of the Contributing Wallets were owned by Block.one.

E.54 We also considered Etherscan's list of the top 1,000 holders of Tokens on 2 June 2018, at the end of the Token Sale, and checked it against the known Block.one wallets. We found two matches, both of which are described earlier in this report:

E.54.1 The Smart Contract Wallet held 3,850,507.83 Tokens on 2 June 2018, 698,982.98 of which were Tokens received by the Smart Contract Wallet from Contributing Wallets or other wallets, and the rest were Tokens not claimed by contributors (see E.25.2);

E.54.2 The Token Address Wallet held 154,834.06 Tokens on 2 June 2018. Block.one informed us that this could have been because Tokens were sent to this address by mistake by unknown third parties (see E.25.3).

E.55 We did not look into Token holders at the end of the Token Sale any further, as a snapshot of Token holders on 2 June 2018 would not show wallets that held Tokens during the Token Sale but disposed of them before 2 June 2018.

10. Why did Block.one withdraw ETH during the Token Sale?

E.56 We considered why Block.one withdrew ETH from the Funding Wallet during the Token Sale, and discussed this with interviewees. The main reasons provided were:

E.56.1 Security: the Funding Wallet was visible on the public blockchain, so ETH held in it was at risk of theft. Withdrawing and dispersing it to other wallets reduced that risk;

E.56.2 "Currency" risk: ETH is subject to unpredictable fluctuations in value. Block.one sought to minimise or diversify this risk by converting the ETH received during the Token Sale into fiat or other cryptocurrency;

E.56.3 Blockage: the ETH contributed to the Token Sale represented approximately 7% of all ETH in circulation at the time. If Block.one had liquidated the ETH received all at once or over a short period at the end of the Token Sale, this would have been far more likely to negatively impact ETH prices than sales in smaller tranches over a long period of time.

E.57 A related question is why the Token Sale lasted almost a year. The FAQs published at the time explained that this would enable buyers to see the development of the EOSIO software before deciding to purchase Tokens. Interviewees also noted that this gave individuals more time to learn about the project and participate and that, the longer the sale period, the more opportunity there was for Token ownership to become decentralised.

E.58 Separate from the explanations we were given, Block.one interviewees informed us that Block.one did not immediately need the revenue received via the Token Sale as, prior to the Token Sale, it had already secured funding to finance the Token Sale and the development of the EOSIO software. There was therefore no immediate financial need to complete the Token Sale in a short period.

E.59 Another related question is why there was no restriction on the transferability of the Tokens. We were provided with several reasons why the transferability of Tokens may have been attractive to buyers of Tokens. First, the secondary markets provided a less technically complex entry point for buyers than the Smart Contract. Second, they created liquidity by enabling holders to dispose of Tokens, making Tokens more commercially attractive. Third, they facilitated further decentralisation by increasing the number of people who were able to buy Tokens.

11. *What practical measures were in place to monitor compliance with the commitment not to purchase Tokens?*

E.60 Block.one told us that it did not provide information to employees about its commitment not to purchase Tokens, other than its public statement to that effect. There was no formal internal policy for employees, shareholders, suppliers, partners and other related parties explaining Block.one's public commitment not to purchase Tokens and its position (if any) regarding purchases by these parties. Such a policy could have been shared with the public to provide greater transparency. Our interviewees, who included individuals with access to Block.one's accounts, were aware of Block.one's commitment not to purchase Tokens.

E.61 We considered whether Block.one could have used practical measures to enforce its commitment not to purchase Tokens. In particular, for exchanges on which Block.one traded that also listed Tokens, it would have been prudent to disable Token trades from the start of the Token Sale. This would have prevented the apparent trading error in September 2017 (Finding 4). We note that, following this trading error, Block.one disabled Token trades on all its exchange accounts.

E.62   We also considered whether the Smart Contract could have been coded to reject ETH sent by a Block.one wallet. This is unlikely to have been effective. Ethereum's blockchain is permission-less and pseudonymous, so anyone can set up any number of wallets without disclosing their identity. The Smart Contract would not have identified Block.one as the owner of any new wallets. We did not look into whether the Smart Contract could in theory have been coded to reject ETH sent by a pre-set list of known Block.one wallets. This might have provided an additional level of control, but we understand that including the details of all Block.one's wallets could have created a security risk.

Clifford Chance LLP

22 July 2021

ANNEX A

ASSUMPTIONS AND LIMITATIONS

F.1   We were dependent on the list of cryptocurrency wallets provided by Block.one, which Block.one confirmed was complete. We also took steps to identify any gaps in the list including, amongst other processes, reviewing blockchain data on withdrawals from the Smart Contract Wallet and Funding Wallet to identify receiving wallets; reviewing Block.one's internal cryptocurrency transaction records against the blockchain; and, for BTC and BTC fork on-chain wallets, observing (via computer screen sharing) the live creation of Trezor transaction reports from Block.one's Trezor hardware wallets.

F.2   Similarly, we relied on Block.one to provide us with details of the cryptocurrency and fiat currency accounts it held with third parties, which comprised cryptocurrency exchanges, fiat currency banks and securities brokers, and OTC brokers. Block.one provided the transaction history and we verified it against third-party records, including by observing (via computer screen sharing) data extraction from Block.one's exchange accounts by its personnel; and receiving records directly from brokers via email. Deposit and withdrawal information was not available in electronic form from one exchange on the day that we observed the data extraction (we understand this was due to a technical issue). The volume of trading activity in the records extracted from this exchange represented a small portion of Block.one's overall trading; therefore, we relied on deposit and withdrawal records provided by Block.one for this exchange. We relied on fiat account statements provided by Block.one from its historic records.

F.3   Ownership or control of a blockchain wallet is rarely publicly known (save for limited information on blockchain explorers such as Etherscan). The identity of counterparties to cryptocurrency transactions with Block.one was based on details in Block.one's internal records. Where we examined contractual documentation as part of our Review, we considered the transaction information it contained, if available. We did not take further steps to verify that the wallets were in fact owned by these individuals or entities.

F.4   The identity of counterparties to transactions with Block.one in fiat currency was based on the details contained in the bank and securities statements. In the case of significant outgoing transactions referenced in Finding 7, where records did not indicate the counterparty, this information was supplemented using the accounting ledgers and information provided by Block.one. In the case of other fiat currency transactions, we did not seek additional clarification on counterparties. We did not take any further steps to verify the identity of fiat currency counterparties.

F.5   Save for the analysis in Findings 2 and 7, we assumed that ETH or other digital assets disposed of by Block.one at arm's length were no longer in Block.one's control. We therefore did not interview third parties; reconstruct the full flow of all ETH sent to the Smart Contract Wallet, to see if contributed ETH had ever passed through a Block.one wallet; or analyse the full transaction history of wallets that transacted with Block.one:

F.5.1   The information we received over the course of the Review led us to conclude that interviewing third parties, shareholders (other than management) or Block.one's engineers (see E.9) would have been disproportionate.

F.5.2   Reconstructing the flow of all ETH sent to the Smart Contract Wallet would have been both disproportionate and inconclusive. ETH contributed to the Token Sale represented approximately 7% of the ETH in circulation at the time, and ETH is a fungible asset that changes hands frequently. It is therefore possible that ETH withdrawn from the Smart Contract Wallet by Block.one and disposed of on an exchange, through a broker or via an arm's length transfer to a third party, could eventually be contributed to the Token Sale later on, as a result of an independent decision by whoever owned the ETH at that time. The fact that ETH once held by Block.one later reached the Smart Contract Wallet does not, in itself, mean that Block.one was involved in the transfers after it left Block.one's hands.

F.6   We also assumed that any payments to third parties (in ETH, fiat or other cryptocurrencies) were for a market price; and that conversions through exchanges and brokers were at a market rate and with counterparties unknown to Block.one.

F.7   Given that the publicly-available Purchase Agreement stated that parties including Block.one's equity holders could participate in the Token Sale on the same terms as all other purchasers (Article 2.3), the Review did not look into how many Tokens Block.one shareholders bought or review the fiat or cryptocurrency transaction history of any Block.one shareholders. This applies to Block.one's majority shareholder during the Token Sale, in the same way as to all other shareholders, and to other companies affiliated with Block.one's majority shareholder.

F.8   Block.one maintained service agreements with affiliates of its majority shareholder. We considered the nature of the relationship with these entities by reviewing the service agreements, and during interviews. However, given that we reviewed the service agreements, we did not seek to understand the basis of each individual payment to these entities in the same way that we did for third parties.

F.9   Block.one engaged in borrowing, lending and margin trading activity on Exchange A (see E.16.3).

F.9.1   Amounts borrowed and lent, and applicable rates, were not shown on the Exchange A activity records.

F.9.2   For one particular margin trading transaction type, trades were presented on a net gain/loss basis upon closure of the margin position, and the currencies and notional amounts involved in the underlying trades were not shown in the Exchange A activity records. As such, we were unable to consider notional trade values and currencies involved as part of the Review, including whether these trades involved Token purchases or sales. However, we did consider all flows in and out of the Exchange A margin trading wallet, as well as net amounts included in the activity records provided.

F.10   Records extracted from one exchange did not distinguish between USD or USDT, and denoted both as "USD". Excluding transactions to or from bank or securities accounts, we have assumed that "USD" transactions were actually conducted in USDT.

F.11   We did not preserve or review email mailboxes or any other electronic communications of Block.one personnel. We did not consider this to be proportionate, given that the focus of our Review was on the flow of fiat and cryptocurrency, rather than on communications within Block.one or between Block.one and external third parties.

F.12   To calculate the USD value of cryptocurrency and non-USD fiat transactions, we used data from reputable data providers.

ANNEX B

SCOPE OF REVIEW EXTRACTED FROM TERMS OF REFERENCE

The Review will consider the following:

a) whether, during the Review Period, Block.one purchased any Tokens through the Ethereum Token Sale smart contract (the "**Smart Contract**"), including:

    i. whether Block.one sent any Ether ("**ETH**") to the Smart Contract or claimed any Tokens from the Smart Contract (with the exception of immaterial minimum level transactions executed by the Block.one technical team in an authorised manner to test technical functionality); and

    ii. whether Block.one forwarded any ETH it received to third party wallets (including cryptocurrency exchanges), other than on an arm's length basis, that were used to send ETH to the Smart Contract, indicating that Block.one helped to fund any apparent purchasers of the Tokens (subject to the fact that Block.one will not have knowledge of every subsequent transfer of ETH after it is removed from the third party wallet to which Block.one first transferred it).

b) whether, during the Review Period, Block.one transacted in the EOS secondary market, including:

    i. whether Block.one executed any transactions to buy or sell Tokens in accounts held by Block.one with exchanges that participate in the trading of Tokens (such as   and   ); and

    ii. reviewing the number of Tokens held in proprietary wallets during the Review Period to ensure that this did not increase at any point;

c) what proportion of ETH withdrawn by Block.one was converted into fiat currency and whether there have been any significant outgoing fiat currency transactions for unusual purposes or for the purposes of purchasing any cryptocurrency which in each case could indicate a usage of funds for the purchase of Tokens; and

d) understanding Block.one's contractual relationships with liquidity providers and / or market-makers, and their respective roles in relation to:

    i. the Token Sale;

    ii. from a secondary trading perspective; and

    iii. in relation to the conversion of ETH withdrawn by Block.one to fiat currency.

C L I F F O R D
C H A N C E