Qredo

QREDO TOKENOMICS PAPER

QREDO TOKEN REWARDS AND EMISSIONS

TABLE OF CONTENTS

THE NETWORK IS THE VAULT™

TOKENOMICS

QRDO is a utility and governance token for the Qredo Network. We've designed a "user-centric" incentive structure that economically favors all network participants to build network effects and drive adoption. As such, the design takes into consideration the incentives required for each participant; including validators, liquidity providers, traders and custody users.

USER-CENTRIC REWARDS

TRANSACTION MINING

Up to 99% of transaction fees paid rebated back via QRDO token awards

CUSTODY MINING

Up to 99% of custody fees paid rebated back via QRDO token awards

VALIDATOR REWARDS

High reward model, derived from user fees plus emissions schedule

MARKET MAKER MINING

Market makers pay no fees, get rewards in L1 and QRDO tokens for providing market depth

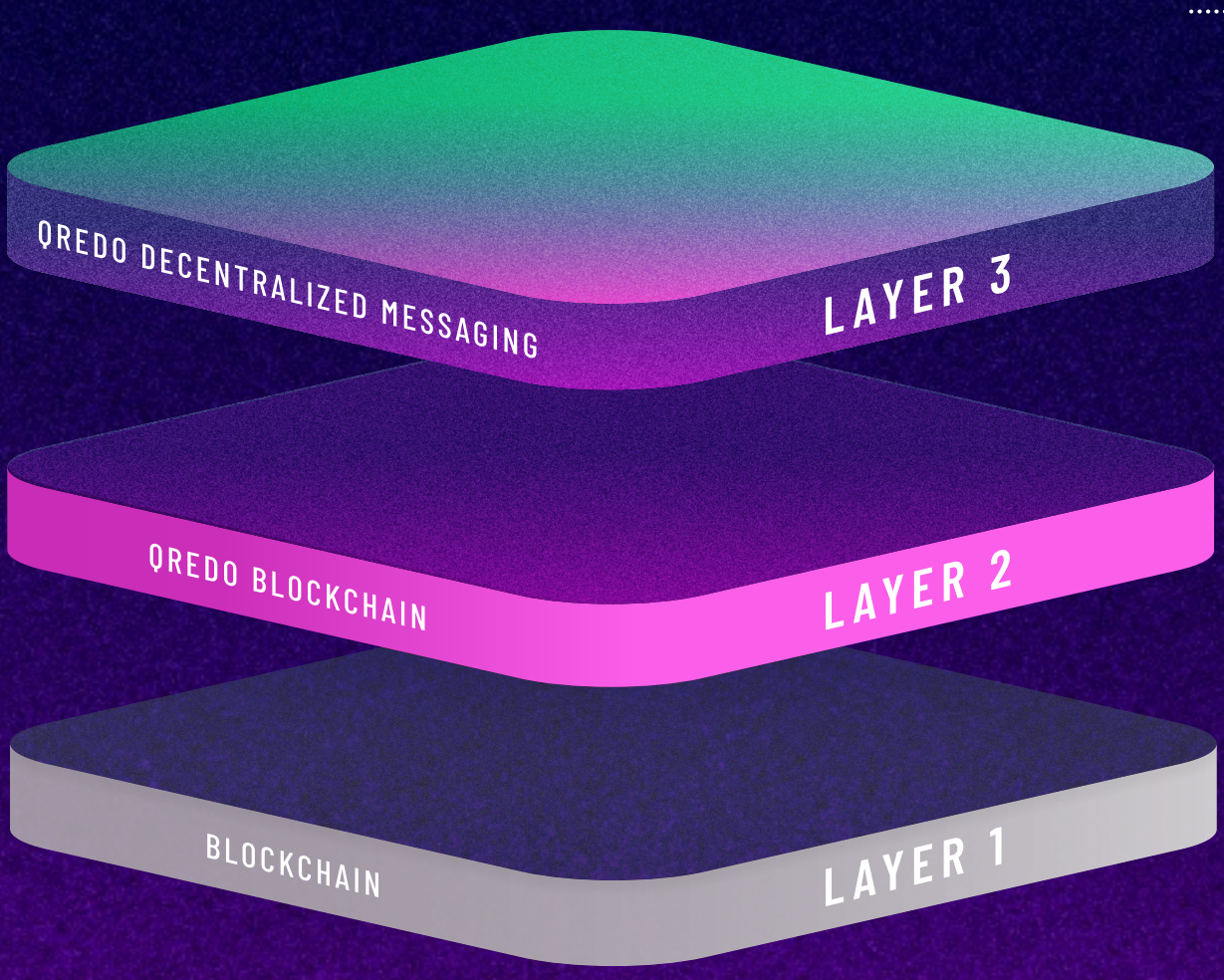
INTRODUCTION

Qredo has developed a system of user rewards that create a unique user-centric tokenomic model.

The Qredo Network consists of two cryptographically linked protocols that work in sync to provide privacy and non-repudiation:

Layer 2 is a decentralized Delegated Proof of Stake (DPoS) blockchain that acts as middleware, enabling decentralized custody and atomic swaps between counterparties exchanging Layer 1 assets (e.g. BTC, ETH).

Layer 3 is an encrypted, decentralized communication network that uses the cryptographic primitives and identity structure from the Layer 2 blockchain as one of the building blocks to provide non-repudiation of messages. The Layer 3 can be used to issue RFQs (Requests for Quotes) to Market Makers, conduct private pre-trade negotiations, or carry Travel Rule information about a particular transaction between regulated Virtual Asset Service Providers (VASPS). Once a transaction is approved on the Layer 3 network by both party's self-appointed custodians holding governance responsibilities, it is recorded on the Layer 2 blockchain automatically.



QREDO NETWORK ARCHITECTURE

NETWORK PARTICIPANTS

SIX USER TYPES

There are six types of User on Qredo Network:

1. MARKET MAKER

2. VALIDATORS

3. TRADER USER

4. CUSTODY USER

5. LIQUIDITY PROVIDER

6. BORROWER

1. MARKET MAKER

Firms that continuously provide quotes to Trader Users – both bids to buy and offers to sell – for a given digital asset on the Qredo Network, using Layer 3.

Market Makers on Qredo Network are required to deposit a minimum USD value of digital assets into Market Maker inventory wallets, and stake a minimum number of QRDO tokens in a Market Maker staking wallet. The number of QRDO tokens needed to stake are determined by the protocol using the economic activity indicators measured from the genesis block up to the current block as input.

2. VALIDATORS

Qredo Validators take turns validating, proposing and voting on transactions to be included in the next block. Blocks are committed in a chain, with one block at each height. Validators inspect transactions to verify their legitimacy as part of the process of proposing transactions to be included in the next block. Validators are compensated by the protocol directly; a small charge of 0.5 basis points is taken out of the Trader User's principal when they are trading with a Market Maker or another Trader User.

The Qredo Layer 2 protocol uses the Layer 3's decentralized RFQ system for exchanging these Layer 1 assets for QRDO tokens, and is responsible for remitting them back to the Validators. A detailed workflow is provided in the following section.

Validators are required to deposit acquired QRDO tokens into a special Validator staking wallet in order to participate in the protocol. The calculation of required tokens takes into account the deposit base on the network and calculates the Validator's deposit amounts in order to incentivize the Validator to be highly available and make malicious behavior unviable economically. The economic security of the network is covered in another paper: "Qredo Validator Economic Security".

3. TRADER USER

Individuals or firms that use Qredo's Layer 2 protocol to atomically swap digital assets between themselves and a counterparty. This counterparty can be a Market Maker or a known counterparty. In both cases, Users use Qredo's Layer 3 encrypted, decentralized communication network to either issue RFQ's (Request for Quote) to Market Makers or conduct a private pre-trade negotiation which finalizes in an atomic swap of the digital assets using Qredo's Layer 2 protocol.

4. CUSTODY USER

Individuals or firms that use Qredo's Layer 2 protocol to safely custody digital assets. Note that a Custody User can also be a Trader User, but a Trader User cannot be a Trader User without first being a Custody User.

5. LIQUIDITY PROVIDER

Liquidity Providers that add liquidity to Qredo's Loan Pools are rewarded with the fees generated when other Trader Users take out loans and trade from those pool's cross-chain wallets for short durations.

6. BORROWER

Qredo Version 2.0 protocol enables the creation of Loan Pools to easily access highly leveraged trade credit, as appropriate for flash loans or yield farming. For liquidity providers, they will resemble a short term money market fund whose function is to primarily loan digital assets to borrowers on the Qredo Network at short durations, at highly leveraged ratios (8x - 10x). Loan Pools are created with the intention of returning high yields from the fees charged to the borrowers who take out loans for short term trading or yield farming. Because of the anticipated high yields and ease of obtaining trade credit, liquidity providers and loan borrowers do not participate in QRDO rewards schemes.

Loan Pools are single-sided pools with their own Layer 1 outward facing wallet that interacts with dApps programmatically via functionality in the Validator's Broker module. All buy/sell orders for the traders interacting with external blockchains are executed using the Loan Pool wallet directed by the Validator's Broker module, so the counterparty risk remaining is the order acceptance and digital asset delivery efficacy of the Layer1 blockchains (ETH, BTC, etc.), making collateral management scalable enough to offer leverage loans. Qredo's developers will constantly tune and update the Broker module to handle complex transactions and conditions.

RFQ SYSTEM

On the Layer 3 network, users can issue RFQs to Market Makers, and receive from Market Makers actionable quotes that they can digitally sign and submit to the Layer 2 blockchain.

The Request For Quote ("RFQ") trading method is an asymmetric trade execution model. In this model, a Trader User invokes the Layer 3 protocol, which queries a finite set of participant Market Makers who quote a bid/offer ("a market") to the protocol using the Layer 3 network.
The protocol will show the Trader User the best quote from all collected.
The protocol enforces a rule where the User may only "hit the bid" (sell to the highest bidder Market Maker) or "lift the offer" (buy from the cheapest seller Market Maker). The User is prohibited from stepping inside the bid/ask spread and thereby reducing the execution fees.
In a typical RFQ system, Trader Users would not be able to trade with each other, and importantly, they can not make markets themselves. Qredo protocol provides an exception to this in that Trader Users can trade privately with known, trusted counterparties (other Trader Users), but is like a typical RFQ system in that they cannot make markets themselves.

SYNTHETIC ASSETS

All deposits of Layer 1 assets prompt the protocol to produce a synthetic asset bound to the original deposit.

For example, a deposit of 1 BTC into the network results in the depositor showing a balance of 1 qBTC in their qBTC wallet. The synthetic asset maps one—to-one with the deposit made into the network. The representation of the deposit enables Trader Users to exchange the whole deposit or fractions of it with other Trader Users or Market Makers, or to deposit it into Qredo's Loan Pools as a Liquidity Provider.

The protocol, which includes the consensus-driven MPC network, automatically tracks and makes available to Trader and Custodian Users the correct amount of Layer 1 assets in their balance when they withdraw digital assets from the network. At all times, the Qredo Network deposit base is linked directly to the supported Layer 1 blockchain's deposit base down to the account or UTXO level, and this data is available for view within the Qredo blockchain explorer.

At all times the sum of all Trader and Custodian User's synthetic assets in aggregate is equal to the amount of Layer 1 assets controlled by the Qredo protocol (which includes the consensus-driven MPC network).

USER-CENTRIC REWARDS

Transaction Mining

Up to 99% QRDO rebates per transaction to incentivize usage of the Qredo Network

Custody Mining

Up to 99% of custody fees paid rebated back via QRDO token awards

Validator Rewards

High reward model, derived from user fees plus emissions schedule

Market Maker Mining

Market makers pay no fees, get rewards in L 1 and QRDO tokens for providing market depth

THESIS

USER-CENTRIC TOKENOMICS

Qredo's **user-centric tokenomic model** is built on these key premises:

- Incentives must exist to drive Custody User, Trader User and Market Maker participation.

- Custody User, Trader User and Market Maker participation drives economic activity on the network, generating income for the Validators and active Market Makers.

- Greater Trader User, Custody User and Market Maker participation results in greater network security, because as the value of User deposits on the network goes up, it will enable more Validators to participate. This results in more staked value from new Validators, making it more expensive to mount attacks in the case where Validators may be malicious.

Some incentives for Custody User, Trader User participation and Market Maker activity targets may be easier to move via decentralized governance, but those that affect token issuance rates, which affect the token supply and overall inflation rate, are built into the protocol itself for transparency and hardness.

The **definition** of a ***user-centric tokenomic model*** is that the incentive structure primarily economically favors the Users of the protocol to drive User adoption in a way that does not penalize the Market Makers or Validators, but instead works to derive the highest economic value for Market Makers and Validators.

The **thesis** behind a ***user-centric tokenomic model*** is that the incentive structures that power Layer 1 blockchains, in which the Validator/Mining entities are directly rewarded with all new tokens created by the protocol, is the wrong model for Layer 2 blockchains that are designed to act as middleware, enabling decentralized custody and trustless transactions between counterparties exchanging Layer 1 digital assets (e.g. BTC, ETH).

Qredo's user-centric tokenomic model is designed specifically to power a Layer 2 middleware blockchain. It ensures that new tokens derived from the inflationary rewards system flow towards the protocol's Users in a way that benefits both Users and Validators in a symbiotic relationship. Market Makers are also compensated by the protocol for providing quotes and filling orders.

This aims to create economic value on the Layer 2 blockchain by ensuring that:

- **Validators** on the network will receive the highest possible economic rewards for their work, securing higher participation rights in the governance of the protocol, enabling Validators to reap long term economic value and;
- **Market Makers** will have an ever increasing demand from a growing User base to provide liquidity, and will be compensated effectively for the risk of experiencing a decline in the value of a digital asset after it has been purchased from a seller and before it's sold to a buyer.

The incentives that drive User and Market Maker participation are key to driving more value onto the Qredo Network in the form of deposits of digital assets, and more transactions across the Qredo Network. This in turn generates real income for the Validators and Market Makers, as this paper will explain.

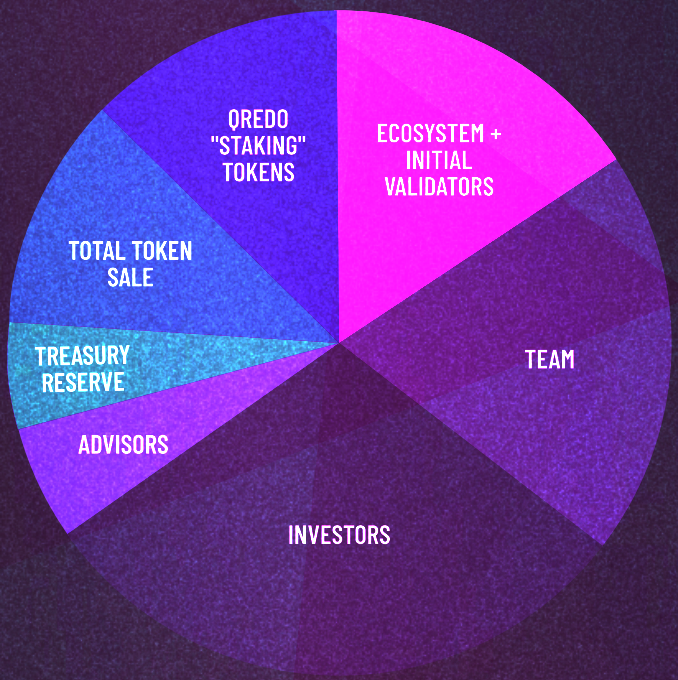
TOKEN DISTRIBUTION

1) ALLOCATIONS

The total number of tokens is hard capped at two billion.

One billion tokens are set aside for investors in Qredo Ltd; including contributors, team, an initial fund for Treasury Management, a fund to help initial bootstrap initial Validators, and a fund to bootstrap the Ecosystem as shown in the figure above. Also included in this one billion is a portion (10%) that will be sold between a mix of private investors and the general public.

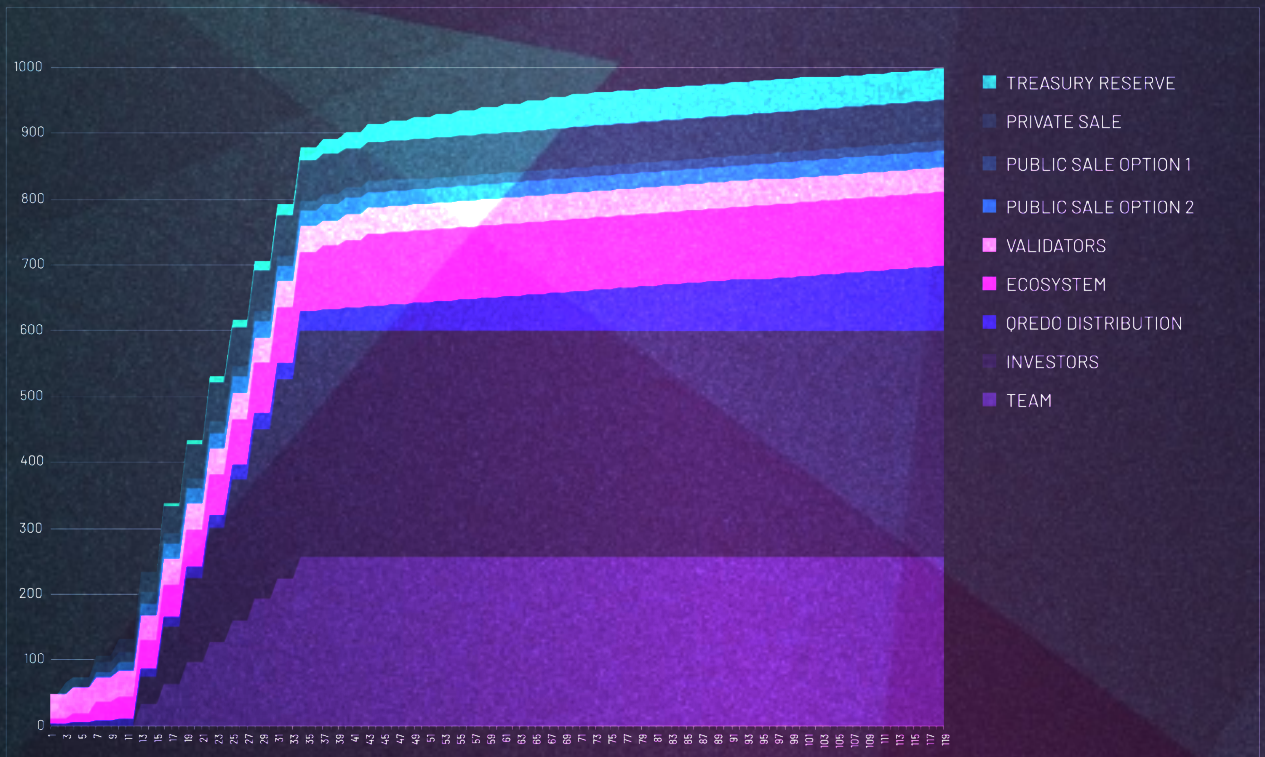
PRIVATE SALE	7.216%
PUBLIC SALE	4.00%
TOTAL TOKEN SALE	**11.216%**
TEAM	**22.00%**
ADVISORS	**3.70%**
ORDINARY	13.00%
SEED	21.30%
INVESTORS	**34.30%**
QREDO DISTRIBUTION	**10.00%**
INITIAL VALIDATORS	**4.00%**
ECOSYSTEM	**11.00%**
TREASURY / RESERVE	**3.784%**
TOTAL	**100.00%**



TOKEN DISTRIBUTION

2) VESTING

The first 1 billion QRDO tokens allocated are vested on varying timelines as shown in the figure below.



SCHEDULE	VESTING	CLIFF
TEAM	24	12
INVESTORS	24	12
QREDO DISTRIBUTION	PERMANENTLY LOCKED	N/A
ECOSYSTEM	48	0
INITIAL VALIDATORS	0	0
PUBLIC SALE OPTION 1	0	2
PUBLIC SALE OPTION 2	12	6
PRIVATE SALE	18	6
RESERVE	60	12

TOKEN DISTRIBUTION

3) INFLATIONARY EMISSIONS

Another billion tokens are set aside for when Version 2 of the protocol goes live, and are to be distributed to actors on the network as a combination of rebates on fees and inflationary rewards, taking the float from 1 billion to 2 billion over an estimated 50 years.

TOKEN REWARDS

FEE-BASED COMPENSATION &INFLATION REWARDS

FEE-BASED REWARDS

Qredo's protocol takes a small percentage of assets stored by the Custody User as Custodian Fees, and a small percentage (0.5 basis points) of assets traded by the Trader User as Transaction Fees.

These fees collected are actually the 'hard' Layer 1 assets being traded or custodied in the network. The Qredo protocol then acts as a User, and issues its own RFQs to each Market Maker on the network to exchange these Layer 1 assets into QRDO tokens to distribute as rewards derived from the protocol's income, primarily to the Validators on the network, and secondarily to the Treasury Management wallet controlled by the DAO.

There are **three predominant types of transactions** on the Qredo Network.

1) Known Counterparty Transaction: An atomic swap of Layer 1 digital assets between two Trader Users who are known to each other, i.e. a peer-to-peer transaction.

2) User & Market Maker Transaction: An atomic swap of Layer 1 digital assets (e.g. btc for eth) between a Trader User and a Market Maker.

3) Custodian Fee Transaction: Where the Custodian User is charged on an AUM model which is collected by the protocol at the end of every month based on the deposits kept in the network within that month.

NOTE: There is a fourth type of transaction, where a trader obtaining a leveraged short-term loan or an over-collateralized longer term loan, repays the interest on the loan into the Loan Pool which is then split 90% to the Liquidity Providers and 5% to the Validators and 5% to the Treasury Management function. However, this transaction type falls outside the scope of both the Fee-Based Reward schedule and the Token Inflation Reward schedule. Liquidity Providers are rewarded in the Layer 1 assets they supply to the Loan Pools.

Known Counterparty Transaction

Qredo's protocol charges Users who atomically swap assets between known counterparties on the network a Transaction Fee based on a set amount within the protocol, currently set at half a basis point (amount of crypto being transferred or swapped x 0.00005).

This charge is applied to both Trader Users in the transaction. Transaction Fees are collected by the protocol as Layer 1 assets, deducted from the principal the user is trading. The Validator's cut of the Transaction Fees, collected as 'hard' Layer 1 assets (BTC, ETH, etc.) are remitted to special Validator Wallets controlled by the protocol, while the Treasury Management wallets receive the same. This is an important point which will be explained in the following section.

User & Market Maker Transaction

A transaction between a Trader User and Market Maker results in a different distribution. The Market Maker is not charged a Transaction Fee, only the Trader User's side of the transaction is charged a Transaction Fee by the protocol.

Again, the Validator's cut of the Transaction Fees, collected as 'hard' Layer 1 assets, are remitted to special Validator Wallets controlled by the protocol, while the Treasury Management wallets receive the same.

Custodian Fee Transaction

Custodian Fees are charged on an AUM model and collected at the end of the month from the Qredo Network's protocol. Currently, Qredo charges 0.75 basis points per month. As above, the Validator's cut of the Transaction Fees, collected as 'hard' Layer 1 assets, are remitted to special Validator Wallets controlled by the protocol, while the Treasury Management wallets receive the same.
Qredo Protocol becomes Trader User.

When the protocol has determined the Validator Wallets and Treasury Management wallets contain enough 'hard' Layer 1 digital assets collected as Transaction Fees or Custodian Fees over a certain time period, the protocol itself sends an RFQ to all available Market Makers (a normal function utilized by Trader Users on the RFQ system) in order to swap all collected Layer 1 assets for QRDO tokens.

The decentralized RFQ bot responds to the Protocol just as if it were a Trader User, providing the best price for purchasing each Layer 1 asset in exchange for QRDO tokens offered by each Market Maker. The decentralized RFQ bot then completes the transaction with each Market Maker to sell these accumulated Layer 1 assets in exchange for QRDO tokens.

These purchased QRDO tokens are then distributed to the Validators and Treasury Management wallet in place of the 'hard' Layer 1 assets collected via a calculation that uses the pro-rata percentage of QRDO tokens staked by 3rd parties with the Validator and the Validator's own staked amount against the total float. These distributed QRDO tokens, once received by the Validator, are the property of the Validator, and do not have a lockup period. It is the responsibility of each Market Maker to have enough QRDO tokens in inventory to be able to fulfill the order placed by the protocol for QRDO tokens via an RFQ.

Qredo Protocol becomes Trader User

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The decentralized RFQ bot responds to the Protocol just as if it were a Trader User, providing the best price for purchasing each Layer 1 asset in exchange for QRDO tokens offered by each Market Maker. The decentralized RFQ bot then completes the transaction with each Market Maker to sell these accumulated Layer 1 assets in exchange for QRDO tokens.

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The next table provides a clear explanation of reward amounts and reward types.

- A matrix of reward amounts to each participant:

	VALIDATOR PECENTAGE	LIQUIDITY PROVIDER PERCENTAGE	TREASURY MANAGEMENT PERCENTAGE
Known Counterparty Transaction	80% in QRDO tokens	0% in 'hard' Layer 1 assets obtained by the protocol	20% in QRDO tokens
User & Liquidity Provider Transaction	60% in QRDO tokens	20% in QRDO tokens	20% in 'hard' Layer 1 assets obtained by the protocol
Custodian Fee Transaction	80% in QRDO tokens	0% in 'hard' Layer 1 assets obtained by the protocol	20% in QRDO tokens

Market Maker Uplifts

Market Makers who issue the winning quote to the protocol's RFQ will receive 20% of the Layer 1 digital assets collected by the protocol when it exchanges the Layer 1 assets when acting as a Trader User in the Trader User & Market Maker transaction.

In addition, each Market Maker on the network has the ability to add their own uplift fees, commission or other charge to the transaction which should be part of the response quote to the RFQ. This field within the quote is called the 'Relayer' field. This presents unique opportunities for Market Makers to develop additional services such as providing Prime Brokerage-like credit to Trader Users who may have the digital assets to complete the trade, but they reside on a centralized exchange, for example.

More detail on these capabilities and revenue opportunities for Market Makers will be expanded in a future version of this document. Connections to DEXs such as Uniswap will also provide greater pools of liquidity, which is part of Qredo's technical roadmap.

TOKEN INFLATION REWARDS

The main assumption of the “per-epoch” inflationary rewards distribution model is that the QREDO team sets a fixed portion of the remaining reward pool to be distributed per epoch to eligible ecosystem participants.

- $EP_n = Emision\ Pool\ in\ the\ block\ n$
- $Df = distribution\ factor$
- $T_n = number\ of\ tokens\ distributed\ in\ the\ block\ n$

$$EP_n = Ep_{n-1} - (Ep_{n-1} * Df)$$

$$T_n = EP_n * Df$$

The emission will be distributed towards four main network participants, based on the current network needs and DAO preferences.

The four main ecosystem participants groups within the Qredo Network are **Trader Users, Custody Users, Market Makers and Validators**. Trader Users and Custody Users are collectively referred to as "Users".

Since the activities, behavior, and motivation of each of these group is different, we implement four customized reward distributions streams:

For **Trader Users** – based on % share in fees paid
For **Custody Users** – based on % share in total assets under management
For **Market Makers** – based on % share in trading volume
For **Validators** – based on % share in total staked & delegated tokens

NOTE: Liquidity Providers are exempt from rewards distribution.
The exact split of block rewards between these four streams is subject to QREDO team decisions and can be adjusted based on ongoing needs (e.g. Trader Users: 20%, Custody Users: 10%, Market Makers: 20%, validators: 50%).

The number will be adjusted by DAO on a biweekly/bimonthly voting basis. For example, the DAO should vote to optimize the emissions of tokens towards the demand side, if there is not enough liquidity (high spread), or, the DAO may vote for more emision to go towards Market Makers (Market Makers). If there is not enough deposit base and trading activity, more emissions will go towards Trader Users and Custody Users.

The distribution will be managed by DAO based on the network data displayed on the protocol dashboard enhanced with data provided by Qredo DAO management team.

Trader Users

In order to incentivize trading activity on the platform, Trader Users will be rewarded with tokens as a form of cashback for fees they have paid. The fees are denominated in dollars first, and then calculated to Qredo value for the sake of distribution.

Example 1:
There is **1000 QRDO** tokens distributed per block to traders
Trader A has spent **400 QRDO** in fees
Trader B has spent **300 QRDO** in fees
They are both getting refunded in full.
The 300 Qredo leftover, is sent to Custody Users so even if there is no volatility and opportunities and trading opportunities, users are incentivized to keep their digital assets on the platform.

Example 2:
There are **1000 QRDO** tokens distributed per block to traders (25% of the total emission)
Trader A has spent **800 QRDO** in fees
Trader B has spent **600 QRDO** in fees
Trader Users are refunded proportionally to how much they have spent on fees

Trader A is getting 57.1% of the Qredo dedicated to traders,
so **571 QRDO tokens**

Trader B is getting 42.9% of the Qredo dedicated to traders so,
429 QRDO tokens

Custody Users

Custody Users are rewarded with emission based on the assets under management they have on Qredo. The fixed number of tokens is distributed towards all the assets held on the network, proportionally to the USD value they held.

Example:
There is 500 QRDO tokens distributed per block to Custody Users (10% of the total emission)
User A, has held 10,000 worth of USD on his wallet on the time of rewards distribution (we can also do SMA)
User B, has held 30,000 worth of USD on his wallet on the time of rewards distribution (we can also do SMA)
User A is getting 25% of the Qredo dedicated to traders so 125 QRDO tokens
User B is getting 75% of the Qredo dedicated to traders so 375 QRDO tokens

If we consider the Example 1 form trader chapter, when there was a 300 of tokens surplus.

User A is getting 25% of the surplus so 75 of QRDO tokens
User B is getting 75% of the surplus so 225 of QRDO tokens

Thanks to the above, we are providing traditional liquidity mining opportunities, where users are able to benefit from the inflationary mechanism of the token while being oriented on trading incentives.

Market Makers

Since Market Makers do not pay fees for transactions, their % share in block rewards is based on their % share in total transaction volume generated by all LPs (Market Makers). Alternatively, we can denominate their share in the emission based on the amount of fees they have collected.

Example:
For the sake of example, let's assume that QRDO price is $1
There are 1000 QRDO tokens to be distributed among Market Makers per epoch.

Market Maker has facilitated the following trade in the epoch n.
1000 USD in ETH for 1000 USD in BTC
2000 USD in QRDO for 2000 USD in BTC

Market Maker B enabled following transaction in n block:
1000 USD in ETH for 1000 USD in BTC
Total volume in this epoch generated by Market Makers A is worth 6000 USD, while volume generated by Market Maker B is 2000 USD

Since Market Makers receive 1000 Qredo rewards in this epoch rewards split is as follows:

LP A receives 750 QRDO tokens (75% share In generated volume)
LP B receives 250 QRDO tokens (25% share in generated volume)

Validators

Revenue distribution model for Validators is the same as for Market Makers. The only difference is that their % share in block rewards is calculated based on the proportion of QRDO tokens held (both their own and delegated) in total QRDO tokens staked.

Example:
Validator A stakes 200 000 QRDO tokens and has 50 000 QRDO tokens delegated and staked by ecosystem users.
Validator B stakes 500 000 QRDO tokens and has 10 000 QRDO tokens delegated and staked by ecosystem users.
Validators receive 50% of total rewards per block (2500 QRDO tokens for split).
Validator A receives 825 QRDO tokens (33% share in all staked QRDO tokens)
Validator B receives 1675 QRDO tokens (67% share in all staked QRDO tokens)

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Qredo

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