

# PAYWARD CANADA INC.

## CRYPTO ASSET STATEMENT

### PHA

#### Phala (PHA)

Last updated on June 2, 2023

#### Disclaimer

***Please note that this Crypto Asset Statement is not exhaustive of all risks associated with trading PHA. Investors should perform their own assessment to determine the appropriate level of risk for their personal circumstances. Be sure to do your own research and due diligence while taking into account your own financial situation and risk tolerance. Please review the Risk Statement for additional discussion of general risks associated with the Crypto Contracts and Crypto Assets made available through the Canadian Platform. These materials are for general information purposes only and are not investment advice or a recommendation or solicitation to buy, sell or hold any crypto asset or to engage in any specific trading strategy. The information contained in this Crypto Asset Statement is based on publicly available information that may be inaccurate, incomplete, or change at any time.***

#### What is Phala?

The Phala Network is a decentralized cloud computing protocol. Cloud computing refers to the maintenance of large, web-based data repositories that provide computing resources, such as data storage and computing power for end users. With the Phala network, excess capacity from everyday computers can be put to work while creating a more distributed approach to cloud computing and storage. Phala aims to provide these services through a decentralized global network of computing resources with the ability to scale for performance while also optimizing for confidentiality and security.

To accomplish this, Phala uses two types of “worker node” participants that enable the network to operate:

- Gatekeeper nodes organize interactions between Phala network users, as well as interactions with other blockchains. Gatekeeper nodes are responsible for maintaining the blockchain state and consensus rules.
- Miner nodes run a CPU network and fulfill various computation responsibilities by renting their computer power to the network.

Using two types of nodes in the Phala network helps to separate consensus and computation responsibilities across the network. Of note, the Phala team launched Khala (PHA) on the Kusama network in order to provide a cloud computing network on its platform. Khala secured the fourth parachain slot auction in July 2021.

**Who is behind the project?**

Phala was founded in 2018 by the Phala Network Foundation and is led by former Google Software Engineer Hang Yin and former Tencent Product Manager Marvin Tong, amongst others. The Phala Network Foundation has raised \$1.68 million over two rounds of private token sales since 2019, resulting in 15% of the initial token supply being distributed to the investors. The project also received three Web3 Foundation grants. The PHA crypto token was launched as an Ethereum token in September 2020, and as a Kusama token in 2021.

**How does it work?**

Phala is being built as a Polkadot parachain, which is a custom blockchain that feeds into the main Polkadot blockchain, called the Relay Chain. The Relay Chain is responsible for Polkadot's shared security, transaction settlements and consensus. Through integration with the Relay Chain, Phala benefits from Polkadot's base features.

Further, as a parachain, Phala believes it will be quick to connect to the other parachains that are built in the Polkadot ecosystem. Phala participants, who send requests to the network as transactions and the miner nodes, conduct the computations needed to ensure transaction validity and network integrity.

To provide confidentiality, work on the miner node's CPUs is done within a secure enclave called a Trusted Execution Environment (TEE). This encrypted area within most modern computers' processors ensures that even the owner of the mining machine cannot see or tamper with what is stored inside of the enclaves of their computer.

Phala gatekeeper nodes act as a broker to create end-to-end encryption between the users and the CPU Miners while ensuring transactions remain private at all times. Once the information gets to the secure enclave, it gets decrypted and executed. The results of this information request are then re-encrypted before being sent out of the enclave.

Phala states that any computation run on the platform, whether it be machine learning data for enterprises or smart contract execution for DeFi apps, is private and versatile across use cases. For example, Phala leveraged its technology to create Web3 Analytics, a platform that collects and processes personal data in a confidential way. Confidential smart contracts can perform data analyses on this data only when authorized by the users, giving them total control over their own data.

**Tokenomics of PHA**

PHA is the native utility token of the Phala Network and is used for its cloud-based economy. The PHA token, which has a maximum supply of 1 billion PHA, helps secure the network and maintain the network's governance mechanism.

The total supply has been distributed as follows:

- 70% is being distributed through mining
- 15% was distributed during the private token sale
- 9% was airdropped
- 5% was allocated to the team
- 1% was distributed as rewards for testnet users

As of June 2023, the circulating supply is ~567 million PHA.

### **General Risks**

Like all other digital assets, there are some general risks to investing in PHA. These include short history risk, volatility risk, liquidity risk, demand risk, forking risk, code defects, cryptography risk, regulatory risk, concentration risk, electronic trading risk and cyber security risk. For more information on general risks associated with smart contracts and digital assets, see Kraken's Risk Statement.

### **Risks specific to PHA**

#### **Competition**

The Phala network faces competition from other smart contract platforms such as Ethereum, Polkadot, Solana, and many others. PHA's value derives from its broader adoption in the market. If the Phala network fails to achieve sufficient adoption compared to the other options in the market, this could negatively impact the value of PHA.

#### **Developer Dependence**

While there are many developers who contribute to the Phala network and its associated products there are no guarantees that they will continue to do so. PHA, Phala's native asset, could be negatively affected by an inability to retain and/or attract developers to maintain and build out phala.

#### **Novel Technical Risk**

A blockchain is a novel and complex technology stack. Unforeseen bugs in any of the components of the Phala network such as one of the many products within the ecosystem or the core infrastructure such as the cloud computing network, W3A, or Dark Wallet could negatively impact the value of PHA.

### **Due Diligence**

Prior to listing on the Kraken platform, Kraken performed due diligence on PHA and determined that PHA is unlikely to be a security or derivative under Canadian securities legislation. Our analysis generally includes, but is not limited to, reviewing publicly available information on the following:

- The creation, governance, usage and design of PHA, including the source code, security and roadmap for growth in the developer community and, if available, the background of the developer(s) that created PHA;

- The supply, demand, maturity, utility and liquidity of PHA;
- Material technical risks associated with PHA, including any code defects, security breaches and other threats concerning PHA and its supporting blockchain (such as the susceptibility to hacking and impact of forking), or the practices and protocols that apply to them; and
- Legal and regulatory risks associated with PHA, including (i) any pending, potential, or prior civil, regulatory, criminal, or enforcement action relating to the issuance, distribution, or use of PHA, and (ii) consideration of statements made by any regulators or securities regulatory authorities in Canada, other regulators of the International Organization of Securities Commissions, or the regulator with the most significant connection to PHA about whether PHA, or generally about whether the type of crypto asset, is a security and/or derivative.

**No securities regulatory authority has expressed an opinion about the Crypto Contracts or any Crypto Assets (as defined in the Risk Statement) made available on the Kraken platform, including an opinion that PHA is not itself a security and/or derivative. Changes to applicable law may adversely affect the use, transfer, exchange, or value of any of your crypto assets, and such changes may be sudden and without notice.**