PAYWARD CANADA INC.

CRYPTO ASSET STATEMENT

Flare (FLR)

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Last updated on April 3, 2023

Disclaimer

Please note that this Crypto Asset Statement is not exhaustive of all risks associated with trading FLR. 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 Flare?

Flare (FLR) is a blockchain network that aims to bring smart contract functionality to cryptocurrencies that do not natively support them such as the XRP Ledger. The network is designed to be highly scalable, secure, and interoperable with other blockchains.

Flare's smart contract functionality is based on the Ethereum Virtual Machine (EVM), which means that developers can easily create decentralized applications (dApps) on Flare using familiar tools and programming languages.

Who is behind the project?

Flare was founded by Hugo Philion and Sean Rowan. Hugo Philion has over 20 years of experience in the financial services industry and Sean Rowan is a software engineer.

In 2021, Flare raised $11.3 million in a funding round that included backers such as Digital Currency Group, Charlie Lee and others.

How does it work?

The network uses a unique consensus mechanism called the Federated Byzantine Agreement (FBA), which allows the network to reach consensus efficiently and securely. This consensus mechanism is also used by the XRP Ledger and Stellar.

In FBA, nodes (also called "validators") communicate with each other to agree on a set of valid transactions. Each node maintains its own copy of the ledger, which contains a list of all the transactions that have occurred on the network. Nodes also keep track of the other nodes they trust, forming a network of trust relationships.

The consensus process in FBA occurs in rounds. In each round, each node proposes a set of transactions that it believes should be added to the ledger. The proposed transactions are then broadcast to the other nodes in the network.

Each node evaluates the proposed transactions against its own copy of the ledger and the trust relationships it has established with other nodes. It then votes on which set of transactions it believes should be added to the ledger. The votes are sent to all other nodes in the network. Once a node receives enough votes from other nodes, it can consider the set of transactions accepted and add them to its copy of the ledger. This process is repeated for each round until a consensus is reached on the state of the ledger.

Flare is designed to be highly interoperable with other blockchains, meaning that it can communicate and exchange value with other blockchain networks. Flare achieves this through a system of trustless gateways, which allow tokens to be moved between different blockchain networks. This makes it easier for developers to create applications on Flare, as they can leverage their existing knowledge of the Ethereum ecosystem. In addition to its smart contract capabilities, Flare also supports the creation of tokenized assets, which can be used to represent a wide range of real-world assets, such as stocks, bonds, and commodities.

Tokenomics of FLR

FLR is a utility token, which means that it is primarily used to pay for transactions and other network functions within the Flare network. Additionally, it serves as collateral for the trust lines established between different assets on the network, such as XRP and ether.

At genesis, Flare had a total supply of 100 billion FLR. The supply was allocated as follows:

- 58.3 billion FLR was allocated to the community
    - 28.5 billion FLR distributed directly to community members over 36 months
    - 20 billion FLR available for community members who bring value onto the Flare network by using cross-chain bridges such as FAssets and Layer Cake
    - 9.8 billion FLR is allocated to the Flare Foundation for community and ecosystem initiatives
- 5.7 billion FLR is allocated to early stage backers, vesting from month 6
- 13.5 billion FLR is allocated to the existing and future team members and advisors. The total allocation for the team, advisors, and backers is 19.2 billion FLR
- 12.5 billion FLR was allocated to Flare Networks Limited, which is responsible for native product development on Flare
- 10 billion FLR for the Flare VC Fund, which will invest in promising ecosystem projects. The total allocation for Flare entities is 22.5 billion FLR

As of April 2023, the circulating supply of FLR is ~12 billion tokens.

General Risks

Like all other digital assets, there are some general risks to investing in FLR. 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 FLR

Competition Risk

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

Staking Risk

Staking FLR does not divorce the holder from the same market and technical risks of merely holding FLR. The yield earned through staking is denominated and earned in FLR. Over time, the total balance of FLR will increase for stakers but this does not guarantee its market value also increases in tandem. Lackluster market adoption and unforeseen technical problems can negatively impact a holder's return on staked FLR.

Due Diligence

Prior to listing on the Kraken platform, Kraken performed due diligence on FLR and determined that FLR 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 FLR, including the source code, security and roadmap for growth in the developer community and, if available, the background of the developer(s) that created FLR;
- The supply, demand, maturity, utility and liquidity of FLR;
- Material technical risks associated with FLR, including any code defects, security breaches and other threats concerning FLR 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 FLR, including (i) any pending, potential, or prior civil, regulatory, criminal, or enforcement action relating to the issuance, distribution, or use of FLR, 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 FLR about whether FLR, or generally about whether the type of crypto asset, is a security and/or derivative.

In addition to performing due diligence on FLR and prior to making FLR available to clients for staking on the Kraken platform, Kraken performed a review of the following:

- the operation of the Proof of Stake blockchain for FLR;
- the staking protocols for FLR ;

- the risk of loss of staked FLR, including from software bugs and hacks of the protocol;
- due diligence with respect to the staking infrastructure operated by Kraken's affiliate or third parties, including but not limited to, information about:
    - the persons or entities that manage and direct the operations of the affiliate,
    - publicly known information about the affiliate's reputation and use by others,
    - the approximate amount of crypto assets the affiliate has staked on its own nodes,
    - the measures in place by the affiliate to operate the nodes securely and reliably,
    - the quality of the affiliate's work (i.e., the amount of downtime of the staking infrastructure, any publicly known past history of "double signing" and "double attestation/voting", etc.),
    - any publicly known slashing, jailing or other penalties incurred by the affiliate, and
    - any guarantees offered by the affiliate against slashing or other penalties and any insurance obtained by the affiliate that may cover this risk.

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 FLR 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.