PAYWARD CANADA INC.

CRYPTO ASSET STATEMENT

Drift Protocol (DRIFT)

Last updated on May 01, 2024

Disclaimer

Please note that this Crypto Asset Statement is not exhaustive of all risks associated with trading DRIFT. 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 the Drift Protocol?

The Drift Protocol is a non-custodial decentralised exchange (DEX) designed to support the trading of various cryptographic and financial instruments, including spot trades, derivatives, borrowing, lending and swaps. The main service line of the Drift Protocol is that it aims to provide a comprehensive venue for the trading of perpetual contracts, a type of derivative that operates like a traditional futures contract, but without an expiry date. This type of financial instrument is normally utilised for risk management purposes, or hedging.

Due to its sizeable trading volumes, the Drift Protocol has implemented a range of liquidity provisions to ensure timely execution and market competitive pricing for its users, including measures such as Just in Time Auction Liquidity (JIT), Limit Order Book Liquidity (LOBL) and Automated Market makers (AMM). Users are able to benefit from these mechanisms whilst gaining up to 10x leverage on their trades.

DRIFT, which is the native token for the Drift Protocol, intends to act as a governance token for the Drift Decentralised Autonomous Organisation (DAO), which will enable holders to participate in future governance initiatives.

Who is behind the project?

The Drift Protocol was founded in 2021 by Cindy Leow and David Lu with a focus of replicating the liquidity and user experience in the perpetual market that was often localised to centralised exchanges (CEX). The Company held its initial seed round in October 2021, raised $2.79 million, with a further $23.5 million raised through a Series A funding round in October 2023.

As of April 2024, the Company is still led by Cindy Leow and David Lu.

How does it work?
The Drift Protocol operates by creating a decentralised platform for trading a variety of products, including perpetual contracts, spot crypto and swaps, whilst also enabling services such as borrowing and lending. At its core, the Drift Protocol leverages of the following liquidity mechanisms for its exchange:

1. *Just in Time Auction Liquidity* - Every transaction on the Drift Protocol is processed through an auction system where market makers compete to offer the best price, which may meet or provide a better price than the auction price. This mechanism intends to provide immediate liquidity and thus, rapid execution of trades;
2. *Limit Order Book Liquidity* - The Drift Protocol features a LOBL that allows trades to place limit orders directly on the blockchain. Keeper Bots, which is a network of automated agents and market makers, automatically support these orders, ensuring they are executed when they are matched with corresponding taker orders; and
3. *AMM Liquidity* - In situations where auction based trades and LOBL trades don't fully cover the market's needs, Drift’s virtual AMM will step in as a secondary liquidity provider. This is activated when the pending orders reach a preset price threshold, which intends to mitigate liquidity issues on the DEX.

Further to the exchange, the Drift Protocol also offers the opportunity for users to engage in either borrowing or lending of cryptocurrencies. Users can either deposit their assets into the Drift Protocol and earn a yield, or borrow assets deposited by other users at a variable interest rate. Lenders will help provide further liquidity to the markets.

The native token of the protocol, DRIFT, will enable users to participate in a range of governance initiatives for the Drift DAO. the Drift DAO is made up of three branches, which are as follows:

1. *Realms DAO* - This group of individuals is responsible for the overall developments of the protocol. The Realms DAO aim to maintain high throughput of the DEX, whilst ensuring there is no compromise on decentralisation or the general ethos of the protocol;
2. *Security Council* - Comprised of members elected by the Realms DAO, these individuals are responsible for monitoring and updating risk parameters, including fees, margin rations and general program upgrades; and
3. Futarchy DAO - This final branch is responsible for funding ecosystem projects and the facilitation of grants aimed at supporting the Drift protocol.

Though there is no active governance as of May 2024, holders are expected to be able to participate and vote in initiatives regarding new markets, rate of rewards, adjustments to smart contract parameters and electing members to the Security Council.

Tokenomics of DRIFT

The total supply of the DRIFT token will be capped at 1 billion units. These tokens will be subject to a 5 year emission schedule, after which all tokens are expected to be in circulation. The proposed distribution of the circulating supply is set out below:

Category	Amount
Community & Ecosystem	53%
Protocol Development	25%
Strategic Participants	22%

General Risks

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

Competition

The Drift Protocol faces competition from the other decentralized exchanges such as Uniswap, Curve, Balancer, Pancakeswap, and many others. DRIFT's value derives from the Drift Protocol's broader adoption in the market. If Drift fails to achieve sufficient adoption compared to the other options in the market, this could negatively impact the value of DRIFT.

Regulatory Scrutiny

A regulatory crackdown on DeFi such as the Digital Commodities Consumer Protection Act (DCCPA), which could regulate decentralised exchanges similar to their centralised counterparts, would effectively ban DeFi. This could have a negative impact on the value of DRIFT.

Due Diligence

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