

PAYWARD CANADA INC.

CRYPTO ASSET STATEMENT

Cartesi (CTSI)

Cartesi (CSTI)

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Disclaimer

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

Cartesi is a layer 2 scaling solution that facilitates the development of decentralized applications (dApps) across multiple blockchains.

With increased adoption, certain blockchains have faced scaling challenges that have led to network congestion and high transaction fees. In addition to incorporating more widely explored layer 2 solutions, like rollups and sidechains, Cartesi addresses blockchain scaling in a number of ways:

1. It is blockchain agnostic – Cartesi's dApp building platform can be used across multiple blockchains like Ethereum and Injective Protocol, among others.
2. It is built using a hybrid model – Cartesi incorporates both on-chain and off-chain components to give dApp developers flexibility.

Cartesi sets itself apart by allowing developers to write smart contracts using coding languages with which they are already familiar, such as Python.

The Cartesi cryptocurrency (CTSI) is a multipurpose token that powers the Cartesi Proof of Stake network. It is primarily used for incentivizing Cartesi node operators to engage with the system honestly, as well as for staking and paying transaction fees in the system.

Who is behind the project?

Cartesi was founded in 2018 by Augusto Teixeira, Erick de Moura, Diego Nehab and Colin Steil. It was originally conceived as a trustless artificial intelligence marketplace, but it evolved into a layer 2 project aimed at solving blockchain scalability and infrastructure limitations.

The project's four leaders have experience in both software development and the startup space. De Moura serves as Cartesi's CEO.

How does it work?

Cartesi brings streamlined software development workflows to blockchain technology by running a hybrid system of on-chain transactions and off-chain computations.

Cartesi Machine and Noether

In an effort to decrease the amount of heavy computations and temporary data stored on the main blockchain, Cartesi relies on several off-chain components.

The Cartesi Machine is a Linux-based virtual machine run by Cartesi nodes and is used to execute dApp computations before broadcasting the computation results to the blockchain. Operating in a Linux environment allows dApps to be written in widely used computer programming languages.

Cartesi's Noether is a sidechain that functions as a data availability oracle. Noether is capable of temporarily recording and storing data that is only needed in the short term. Disposing of data that was only needed for short periods of time saves space and creates efficiencies over the long term for the blockchain.

On-chain components

The state of a Cartesi Machine and its associated dApps is represented by a cryptographic hash on the blockchain. This hash's information contains the beginning and ending states of all off-chain dApp functions, which allows the network to ensure honesty and transparency across its off-chain network as well.

Communication with the blockchains is achieved by using Cartesi's variant of optimistic rollups, a scaling solution that executes transactions off-chain and posts transaction data to the main blockchain. This preserves Cartesi's intent of keeping dApps decentralized and verifiable while offering greater scalability to its network.

Tokenomics of CTSI

CTSI can be staked in Cartesi's Proof of Stake consensus system. Staking allows token holders to earn a reward for helping secure the network. CTSI is also used to pay fees when interacting with the Noether sidechain.

17.67% of the total CTSI supply was sold in 4 separate sales from 2017 to 2020. The team received 15% of the token supply, advisors received 2.11%. 40.22% was allocated to the Foundation Reserve and 25% for the Mining Reserve. CTSI supply is capped at 1 billion tokens and the circulating supply as of December 2022 is 651 million.

General Risks

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

Competition

Cartesi faces competition from other layer 2 networks such as Arbitrum, Optimism, zkSync and many others. CTSI's value derives from its broader adoption in the market. If CTSI fails to achieve sufficient adoption compared to the other options in the market, this could negatively impact the value of CTSI.

Developer Dependence

Although there are many developers working on Cartesi, there are no guarantees that they will continue to contribute. CTSI could be negatively affected by an inability to retain and/or attract developers to continue to meet the needs of the market.

Due Diligence

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