

PAYWARD CANADA INC.

CRYPTO ASSET STATEMENT

Polkadot (DOT)

Last updated on March 16, 2026

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What is Polkadot and How does it work?

Polkadot is a blockchain network designed to connect multiple blockchains so they can share security and exchange data. In Polkadot's own documentation, the protocol is described as providing "shared security and interoperability" for parachains, which are individual blockchains that connect to the wider network. The Web3 Foundation also describes Polkadot as its flagship protocol and a scalable sharded chain. In practical terms, Polkadot uses a central chain, often called the Relay Chain, to coordinate security and consensus, while other chains connected to it can specialize in different functions. Official Polkadot materials say system parachains can offload functions such as governance, balances, transfers, and bridging from the Relay Chain, and Polkadot Hub is presented as an entry point for smart contracts, staking, governance, identity, and interoperability services.

Polkadot operates with a proof-of-stake model, more specifically Nominated Proof-of-Stake (NPoS). According to Web3 Foundation research, validators help produce and finalize blocks, while nominators

back validators with staked DOT. DOT is used for staking, governance, and other network functions. Polkadot's research materials also state that DOT has roles in economics, slashing, governance, and parachain allocation.

The Polkadot network and ecosystem hosts the following architecture:

Relay Chain – The main Polkadot blockchain, this network is where transactions are finalized and consensus is achieved. To garner faster network speeds, the Relay Chain separates the addition of new transactions from the act of validating those transactions. This model allows Polkadot to process over 1,000 transactions per second, according to 2020 testing. The Relay Chain has deliberately minimal functionality - for example no smart-contracts operate on it.

Parachain Slots – Parachains are custom blockchains that use the Relay Chain's computing resources to confirm that transactions are accurate. Securing a Parachain requires a candle auction and bonding DOT tokens for a specified allotment of time to the Relay Chain, for a maximum of 96 weeks, whereby the DOT is returned on-chain. Each Parachain has a specialized use-case and functionality that both the Relay Chain and other Parachains can utilize and benefit from.

Parathread Slots – Parathreads operate as a 'pay-as-you-go Parachain' and therefore pay on a per-block basis. A portion of Parachain slots on the Relay chain will have no Parachains attached to them and therefore will be reserved for Parathreads, which will compete for the auction space. Parathreads share the same interoperability, security, and cross-chain functionality as Parachains but differ in their economic model due to requiring a fixed fee (which is also returned on-chain) and not needing to bond DOT to the Relay Chain.

Bridges – Bridges allow the Polkadot network to interact with other blockchains. Work is underway to build bridges with blockchains like Ethereum, Bitcoin, and Cosmos DSK - which would allow tokens to be swapped without a centralized exchange or third party intermediary. A Substrate built blockchain can exist independently (not be a Parachain or Parathread) but be secured to the Polkadot ecosystem via a Bridge.

The Relay Chain

To keep its network in agreement about the state of the system, the Polkadot Relay Chain uses a variation on Proof of Stake (PoS) consensus mechanism called Nominated Proof of Stake (NPoS). This system allows anyone who stakes DOT by locking the cryptocurrency in a special contract to perform one or more of the following roles necessary to its operation:

Validators – Assume the role of producing new blocks, validating parachain data, and guaranteeing finality via running a node. They also participate in consensus and vote on proposed changes to the network.

Nominators – Secure the Relay Chain by selecting trustworthy Validators. Nominators delegate their staked DOT tokens to Validators and thus allocate their on-chain governance votes to them.

Collators – Nodes run that store a full history for each parachain and aggregate parachain transaction data into blocks for addition to the Relay Chain.

Fishermen – Monitor the Polkadot network and report bad behavior to validators. Users who stake DOT and perform these roles are also eligible to receive DOT rewards.

Polkadot Governance

Three types of Polkadot users can influence the software’s development. These include:

DOT holders – Anyone who purchases DOT tokens can use their DOTs to propose changes to the network and approve or reject major changes proposed by others.

The Council – Elected by DOT holders, council members are responsible for proposing changes and determining which changes proposed by DOT holders are made to the software. Proposals by Council members require less votes to be approved than those by ordinary DOT holders.

The Technical Committee – Composed of teams actively building Polkadot, this group can generate special proposals in the event of an emergency. Members of the technical committee are voted in by Council members.

Who is behind Polkadot?

Polkadot was founded by Gavin Wood (a co-founder of Ethereum) alongside co-founders Peter Czaban and Robert Habermeier in 2016. Wood’s background is notable since he invented ‘Solidity’, the coding language used by developers to write decentralized applications (dApps) on Ethereum. He was also the Ethereum Foundation’s first CTO, and was previously a research scientist at Microsoft. Wood founded a company called Parity Technologies in 2015 with Jutta Steiner. Its purpose was to implement projects wishing to build on Ethereum. It also worked on software essential to powering Ethereum, including one of two clients run by a majority of network nodes. Parity Technologies now maintains Substrate, a software development framework primarily used by Polkadot and Parachain developers who wish to quickly create and deploy Parachains.

Tokenomics of DOT

The DOT token initially had a total supply of 10 million DOT. In March 2026, Polkadot announced an upgrade to its token issuance model, effective March 14, 2026. The update introduces several significant changes, including setting the maximum supply of DOT, at 2.1 billion. At the time of the proposal, approximately 80% of the tokens have been issued. Additionally, the issuance rate of DOT will be reduced by about 53% on March 14, with plans for further gradual reductions in the future.

The initial supply was allocated as follows:

Category	Amount
Auction Sale	50%
Reserved for Web3 Foundation	30%
Future Sales	11.6%
2019 Private Sale	5%
2020 Private Sale	3.4%

Total	100.0%
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General Risks

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

Competition

Polkadot faces competition from other Blockchain infrastructure projects such as Ethereum and Solana. DOT's value derives from the project's broader adoption in the market. If Polkadot fails to achieve sufficient adoption compared to the other options in the market, this could negatively impact the value of DOT

Due Diligence

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