PAYWARD CANADA INC.
CRYPTO ASSET STATEMENT
Centrifuge (CFG)

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Disclaimer

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

Centrifuge is a decentralized finance (DeFi) lending protocol that aims to make credit more accessible to small businesses, while also providing a stable yield for investors by opening pooled liquidity to the world of traditional finance.

The Centrifuge Chain is a purpose-built chain that tokenizes cash flow generating real-world assets, such as loans, invoices, and royalties. Built on the Centrifuge Chain is the Tinlake Dapp, a smart contract platform, that administers collateralized pools of real-world assets to optimize risk allocation. Through Tinlake, Asset Originators can access bankless liquidity, and investors can earn yields through an open investment protocol.

Who is behind the project?

Centrifuge was co-founded by a German team led by CEO Lucas Vogelsang, who previously founded the e-commerce company DeinDeal. Prior to Centrifuge, Vogelsang and other co-founders launched Taulia, a FinTech provider of working capital solutions such as electronic invoicing and supply chain financing.

The Centrifuge team has been in the financial supply chain industry for more than two decades. In 2018, the original idea for the project was to build Centrifuge OS also known as Centrifuge Operating System, an open, decentralized, public network for a new era of applications for the financial supply chain. Later, the ambition of the team expanded to build Real World Asset (RWA) DeFi.

The project has established two key partnerships, one with Aave and one with MakerDAO. Partnership with MakerDAO enables the assets from Tinlake, which is the marketplace of asset pools bringing together Asset Originators and Investors based on Centrifuge protocol, to act as collateral in a MakerDAO smart contract.

Centrifuge has raised a total of $15.8 million in four rounds of funding. The latest funding round, led by Coinbase Ventures, occurred on 2 November 2022 and raised $4 million.

How does it work?

Centrifuge is built on Parity Substrate, a platform that allows for the creation of distributed blockchain systems on the Polkadot and Kusama networks. Centrifuge can therefore interact seamlessly with Polkadot once it becomes a parachain, benefiting from the consensus and security protocols of Polkadot's Relay Chain. Until then, Centrifuge Chain acts as a standalone Proof of Stake blockchain that conducts its transactions with CFG.

Centrifuge's core product is Tinlake, an open marketplace and investment dApp built on Ethereum. Tinlake helps bring the traditional finance offering of collateralized loans onto the blockchain. Tinlake supports Realorld Assets to be tokenized as NFTs (Non-Fungible Tokens) to create an on-chain representation, which is linked to detailed off-chain data, making both its authenticity and ownership verifiable. Tokenized assets can be used as collateral for loans funded by the liquidity investors have deposited within Tinlake pools. The assets are pooled together and securitized by the issues, and Tinlake pools provide capital to businesses as loans. In return, investors earn a yield on the capital that has been provided to asset originator businesses.

Centrifuge is powered by its utility token CFG, which provides security to the blockchain while allowing holders to pay transaction fees, stake assets, and participate in Centrifuge's governance.

Tokenomics of CFG

The initial coin distribution created 400 million CFG, which was distributed to the Centrifuge Network Foundation and initial contributors, including core team, investors and validators. Since genesis, approximately 25 million additional tokens have been minted as rewards for adoption.

CFG tokens are minted to incentivize critical functions of the network, accelerate adoption and distribute the token to core users. Rewards are distributed to users who bring assets onto the platform, provide liquidity and secure the Centrifuge Chain itself.

CFG token distribution is as follows:

Category	CFG Distribution
Core Contributors	27% of token token supply
Total Backers	17.10% of token token supply
Rewards & Grants	7.30% of token token supply
Early Ecosystem	8.30% of token token supply
Development Grants	11.80% of token token supply
Community Grants	7.10% of token token supply
Foundation Endowment	11.80% of token token supply
Community Sale	9.50% of token token supply

CFG supply is as of September 2023 425 million and grows at a rate of 3% per year, subject to governance. CFG transaction fees are burned at a rate set by on-chain governance to support the token becoming stable long-term.

General Risks

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

Developer Dependence

Although there are many developers working on the Centrifuge protocol, there are no guarantees that they will continue to contribute. CFG could be negatively affected by an inability to retain and/or attract developers to continue to maintain and build out the network infrastructure as well as attract developers to build applications that utilize the Centrifuge protocol infrastructure.

Regulatory Scrutiny

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

Due Diligence

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