

PAYWARD CANADA INC.

CRYPTO ASSET RISK DISCLOSURE CF Large Cap Index (LCAP)

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Disclaimer

Payward Canada Inc. (Kraken) is registered under Canadian securities laws as a restricted dealer and is offering Crypto Contracts on crypto assets in reliance on a prospectus exemption contained in the exemptive relief decision Re Payward Canada Inc. dated 04/01/2025 (the Decision). The statutory rights in section 130.1 of the Securities Act (Ontario), and, if applicable, similar statutory rights under the securities legislation of each other province and territory in Canada, do not apply in respect of the Crypto Asset Statement to the extent a Crypto Contract is distributed under the prospectus relief in the Decision.

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 LCAP 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.

Please note that this Crypto Asset Statement may not be exhaustive of all risks associated with trading LCAP. Please review the Risk Statement and Fee Schedule for additional discussion of general risks and transaction fees 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 provided by third parties.

What is CF Large Cap Index (LCAP) and how does it work?

LCAP Token is planned to be an Ethereum-based ERC-20 index token that mirrors the CF Large Cap (Diversified) Index. When a user mints LCAP, they deposit the exact mix of index constituents into the Reserve Index Protocol smart-contracts; those contracts lock the basket on-chain and mint an equal amount of LCAP. To reclaim the underlying assets, the holder burns LCAP, the contracts release the corresponding basket, and the token is destroyed. Governance over basket changes and protocol parameters will be performed by vote-locked RSR holders (Reserve Rights token), who earn a share of the protocol's TVL fee for participating. This 1-for-1 backing keeps every LCAP fully collateralised by the locked basket, so the token's price simply tracks the live market value of its components while remaining usable in any Ethereum wallet, DEX, or DeFi application.

Who is behind the project?

LCAP Token is developed and maintained by ABC Labs, led by Chief Executive Officer Thomas Mattimore.

Tokenomics of LCAP

The total supply of LCAP Tokens depends entirely on how much of the index basket users deposit, there is no cap. No central authority can alter that supply: the Reserve Index Protocol's smart-contracts automatically lock the basket assets when minting and burn tokens on redemption, so each LCAP always remains 1 for 1 backed by the underlying crypto-assets.

General Risks

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

Depegging Risk:

At any given point in time, the price of LCAP Token may not accurately reflect the value of the underlying asset basket. This risk arises because the price of LCAP Token is determined by supply and demand in the secondary market, rather than the actual value of the basket. If demand for LCAP exceeds the available supply, the price may increase, leading to a higher price relative to the basket. Conversely, if there is a surplus of LCAP Tokens and insufficient demand, the price may decrease, causing LCAP to be worth less than the underlying assets.

While LCAP Token should always be redeemable 1:1 with underlying assets, there is always a risk of a program/smart contract bug. A potential bug could negatively impact the value of LCAP Token.

Due Diligence

Prior to listing on the Kraken platform, Kraken performed due diligence on LCAP and determined that LCAP is unlikely to be a security or derivative under Canada 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 LCAP, including the source code, security and roadmap for growth in the developer community and, if available, the background of the developer(s) that created LCAP;
- The supply, demand, maturity, utility and liquidity of LCAP;
- Material technical risks associated with LCAP, including any code defects, security breaches and other threats concerning LCAP 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 LCAP, including (i) any pending, potential, or prior civil, regulatory, criminal, or enforcement action relating to the issuance, distribution, or use of LCAP, and (ii) consideration of statements made by any regulators or securities regulatory authorities in the Canada, other regulators of the International Organization of Securities Commissions, or the regulator with the most significant connection to LCAP about whether LCAP, or generally about whether the type of crypto asset, is a security and/or derivative.

