

PAYWARD CANADA INC.

CRYPTO ASSET STATEMENT

Badger DAO (BADGER)

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Last updated on March 29, 2023

Disclaimer

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

Badger DAO is a decentralized autonomous organization (DAO) that enables users to earn yield on bitcoin and for it to be used as collateral across decentralized finance (DeFi) applications.

Over the course of 2020 and the first half of 2021, the estimated 1,000 bitcoin — in the form of synthetic BTC derivatives — being used on the Ethereum network ballooned to more than 250,000 bitcoin as a direct result of DeFi's meteoric rise in popularity.

In response to this increasing adoption of DeFi, Badger was built to serve a growing need for the use of bitcoin in DeFi applications on these various blockchain networks.

Badger's first product, Sett Vaults, allows users to earn yield on their synthetic BTC assets. Digg, Badger's second product, is software that manages the DIGG token, an elastic-supply cryptocurrency pegged to the dollar price of bitcoin.

BADGER is an Ethereum-based token used for protocol governance and distribution of rewards within the Badger DAO. Although BADGER originally allowed holders to only vote on project proposals, it has since grown in utility and is now used to distribute rewards to those who manage the Sett Vaults.

Who is behind the project?

Badger was founded in September 2020 by Chris Spadafora, Ameer Rosic, Albert Castellana, and Alberto Cevallos. When building its DAO infrastructure, the Badger team collaborated with dOrg, a company that specializes in building DAO-related software.

Among other accomplishments, Spadafora is the creator of the Crypto COVID19 Charity Poker Tournament, Rosic is a serial entrepreneur and cofounder of Blockgeeks.com, and Castellana is a co-founder of StakeHound. Spadafora and Rosic are currently part of the Badger operations team while Castellana and Cevallos have taken advisory roles in the project.

How does it work?

Badger has integrated multiple DeFi products into its platform to help make bitcoin a usable asset across blockchains. The development team has partnered with other DeFi projects such as Yearn , and Curve to bring yield to bitcoin holders.

Setts

Also known as Sett Vaults, Setts are pools of tokens where users can lock up their tokenized bitcoin and allow smart contracts to manage their holdings to generate yield. In other words, Setts are Badger's version of an automated DeFi aggregator. Users that hold BADGER in their wallet, receive a higher APY in Sett Vaults.

When users deposit tokens into a Sett, they receive bTokens in return. For instance, if users deposit BADGER in a Sett Vault, they would receive bBADGER in return. These bTokens are interest-bearing tokens that represent the user's share of the assets in the Sett and can be used as collateral in various DeFi applications. Anyone that deposits in a Sett will receive yield paid out in the appropriate token (based on the parameters laid out in that specific Sett) along with BADGER tokens. bTokens can then be traded back for the original asset along with any earnings (minus a fee).

DIGG

DIGG is a decentralized "elastic-supply" cryptocurrency, pegged to the price of bitcoin. Digg's software programmatically adjusts the supply of its DIGG cryptocurrency through smart contracts that expand or contract the circulating DIGG supply in response to fluctuations in the price of bitcoin. If demand for DIGG is high, the price of each token may exceed the price of one BTC so the Digg protocol automatically increases the supply of DIGG to bring its price back down in line with the market price of BTC. If the demand is low, the Digg protocol automatically decreases the supply of DIGG to have the inverse effect. The process of programmatically adjusting supply to change an asset's price is called "rebasng" and is applied across all wallets that hold DIGG tokens.

While the supply of DIGG is constantly changing in an "elastic" fashion, a token holder's proportion of the total supply of DIGG remains stable. In other words, if you held 1% of all DIGG tokens before a rebasing event, you would still hold the same percentage of coins after the rebasing. DIGG can be used in DeFi protocols just like any other token, and can also be deposited into Setts to generate a yield for its holders.

Tokenomics of BADGER

BADGER was originally conceived as the governance token of the Badger DAO ecosystem and it has since expanded to provide additional functionalities within the Badger ecosystem. These include voting rights over the future direction and use of the treasury, staking in its designated Sett Vault and rewards for providing liquidity in BADGER-WBTC pools. Holding BADGER in your wallet also increases APY in Sett Vaults.

BADGER had a fair token launch meaning that there were no premine, funding rounds or tokens designated for VCs. 90% of the tokens were distributed to the Badger builder community and the Badger DAO. The remaining 10% was allocated to the founding team.

There will only ever be 21 million BADGER tokens. After the full supply of BADGER is in circulation, no further tokens can be minted. The circulating supply as of January 2023 is ~17 million BADGER.

General Risks

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

Competition

Badger DAO faces competition from other yield aggregating platforms. BADGER's value derives from its broader adoption in the market. If Badger DAO fails to achieve sufficient adoption compared to the other options in the market, this could negatively impact the value of BADGER.

Developer Dependence

Although there are many developers working on the BADGER project there are no guarantees that they will continue to contribute. BADGER 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 BADGER and determined that BADGER 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 BADGER, including the source code, security and roadmap for growth in the developer community and, if available, the background of the developer(s) that created BADGER;
- The supply, demand, maturity, utility and liquidity of BADGER;
- Material technical risks associated with BADGER, including any code defects, security breaches and other threats concerning BADGER 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 BADGER, including (i) any pending, potential, or prior civil, regulatory, criminal, or enforcement action relating to the issuance, distribution, or use of BADGER, 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 BADGER about whether BADGER, 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 BADGER 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.