DRT™ Protocol

Tokenomics

Classification: Public Document
Audience: General

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Table of Contents

1 Introduction

This document outlines the Tokenomics for the DRT protocol. The protocol allows financial protection seekers to find a market to match with protection sellers. The protections sought are against economic losses resulting from event risks.

Event risks are characterized as indices representing a composite of several features, such as the risk category, and geophysical, for example, the risk type, earthquake, and region, such as Japan, but not limited to those.

The risks are further structured into standards, representing maturities and strikes. A strike defines the payout threshold. The protection buyer pays a premium, whereas the seller invests a nominal minus premium. If an index exceeds the strike before the contract's maturity, the nominal is paid to the protection buyer. If it hasn't, the seller receives the nominal at maturity.

For a matched deal, Cerchia receives market fees per volume of the deal, all in USDC.

Cerchia has launched the marketplace on the Avalanche blockchain for its properties of fast transaction finality, low gas price and features such as institutionalized subnets. The DRT contracts process and govern the above-described flows and are fully automated besides new index creation, which a DAO structure will oversee.

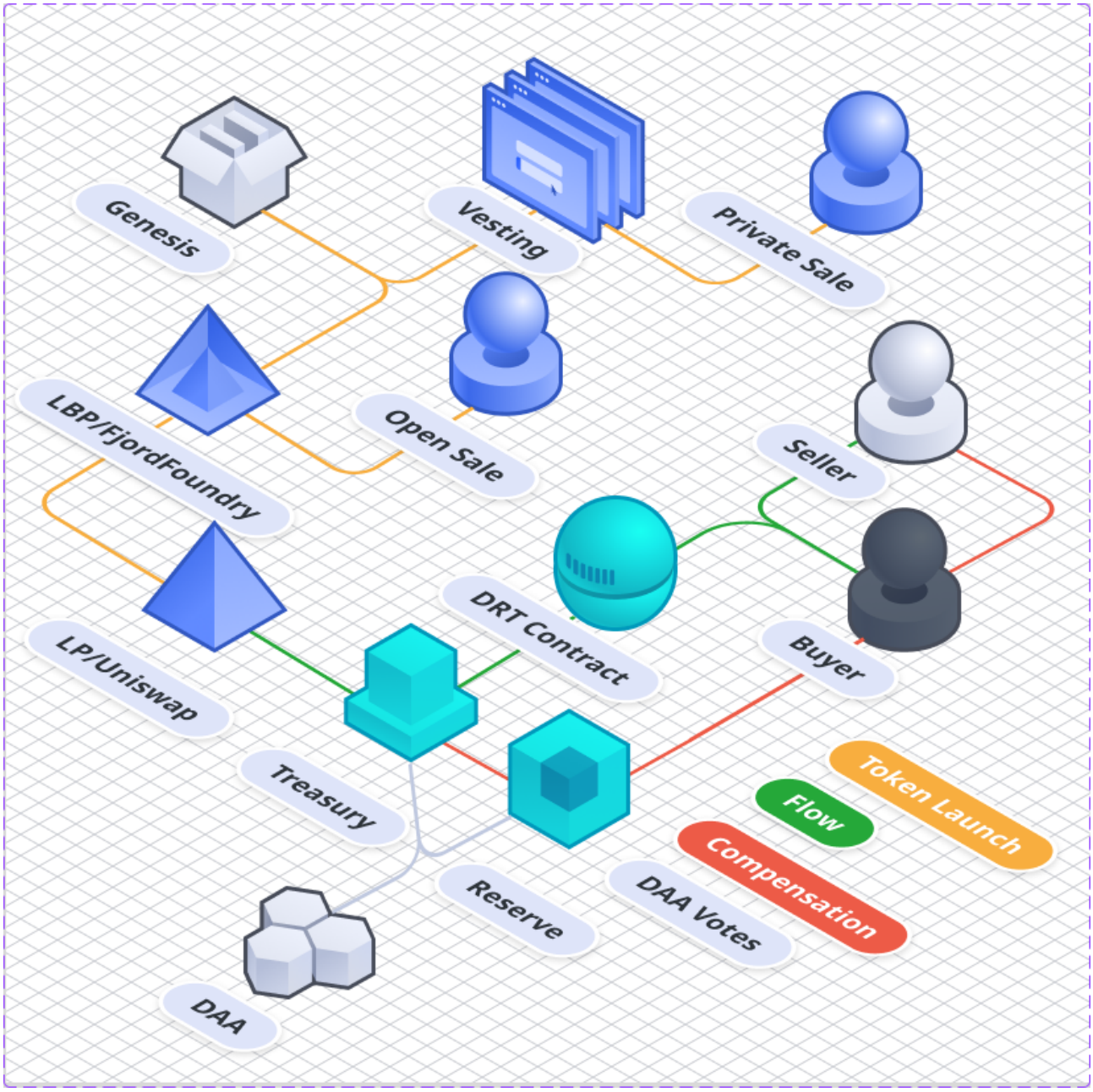
The protocol will mint DRSK tokens on a deflationary basis, with 100 million tokens allocated to different stakeholders over a defined vesting schedule.

The most critical utility of the token is to govern a new marketplace and participate in it. Governance aspects include the definition of new indices, parameters of the protocols' management of compensation claims, and generally, ensuring a decentral, transparent, fair, and competitive market.

The Tokenomics are materialized over several phases outlined in the following sections, especially as regulatory action is pending regarding the financial asset security aspects of our DRSK token. Once we have received a reply, thereby certainty, we will anticipate additional features within the regulatory framework given.

1.1 Tokenomics Components Diagram

This is just a minimal depiction of the participants and components of the outlined Tokenomics.



2 Token value appreciation

We anticipate the demand for the token will rise according to the increasing traction of deal volumes on the DRT protocol. DRT's USP lies in the complete transparency of the DRT components,

opposite to the opaqueness and inaccessibility of current markets. CAT bonds, for example, lay out the terms of the bond only after the fact; therefore, it is untransparent.

As the traditional economy shows, this leads to inefficient markets for a market with a protection gap of billions of USD on the buyer side and, on the seller side, a pension gap of similar magnitude, DRT providing substantial yield for the sellers. This inefficiency adds to the fact that through non-standardized protection agreements, usually for indemnity insurance (paid out after and according to actual damages), potential participants are not catered for as the current market participants find it economically inefficient to provide them with such protection.

As the DRT protocol unlocks this market potential, we see the most value appreciation of the DRSK token to come from the ability to take part in the governance of the market, opening it up for the currently uncatered protection seekers. The full potential is reached after the DAO Governance is implemented.

3 Phases

3.1 Pre-launch Phase

The Pre-launch Phase consists of fundraising via SAFT (Simple Agreement for future tokens) and probably a 2nd SAFT. SAFTs are the fundraising instrument of choice given pending token classification ruling by the FINMA, the Swiss financial market regulator.

3.1.1 SAFT 1

The initial SAFT was auctioned in August 2021, whereby the tokens haven't been minted on our second blockchain offering, the Zilliqa blockchain. It is anticipated that the SAFT participants will receive a discount to agree to a cliff of 6 months to reduce potential sell pressure after an open market sale, described later during the LBP phase.

3.1.2 SAFT 2

Given general indications, we reserve the option to initiate a 2nd SAFT auction for all or parts of the tokens allocated to the LBP phase (outlined in the following sections), 10% as non-vested, should all tokens be sold. In this case, for unsold tokens, the Treasury would directly initiate a Liquidity

Pool with a ratio that would align with minimally the highest price auctioned during both SAFT agreements. We would still maintain a cliff for the 1st SAFT as we assume that the immediate price discovery for the second auction will result in a higher price per DRSK token, and the cliff will mitigate initial sell pressure. We don't anticipate the latter, but those parties are unknown to each other.

3.2 Allocations and vesting schedules

If not mentioned otherwise, vesting is linear. All participants can claim the tokens as they are vested. As mentioned, there is a cliff of 6 months for the private sale of tokens issued in the 1st SAFT. This cliff is due to prevent sales pressure from the initial SAFT 1 token holders, stabilize the price in the open market and leave room for interventions of the treasury.

Please refer to Appendix A for a tabular representation of the Allocations and vesting schedules.

3.2.1 Team of 20%, vested over three years.

This allocation rewards the team for its efforts and as an economic incentive. It has one of the most extended vesting schedules to support a long-running interest.

3.2.2 Private Sale of 15%, cliff after six months.

As outlined in the pre-sale section, an initial token sale for future tokens has been performed for a different blockchain. The tokens have been minted to comply with the conditions and terms of the SAFT but have not yet been distributed due to a pending regulatory ruling. This pending ruling is the most important reason for excluding specific security characteristics in this Tokenomics. Depending on and based on the regulator's final decision, additional features might be added.

3.2.3 Open Sale of 10%, non-vested.

The LBP offering mainly governs the Public Sale. Tokens sold are then in free circulation, remaining DRSK tokens are allocated to a regular Liquidity Pool. The collateral token is distributed to the Treasury supporting Cerchia's business activities. LP tokens are as well incurred, which are also allocated to the Treasury. The LP can be funded with a 60:40 ratio. As the private sale token price

was probably fixed well below the anticipated public sale price, a vesting of the private sale token is imperative.

3.2.4 Ecosystem Development of 10%, vested over two years.

This incentive pool will provide liquidity for initiatives like bounty programs. According to the trading volume, the bounties should align with a smart contract breach risk. The liquidity is preferably supplied in DRSK tokens, but stablecoins must be swapped before traction intensifies in case of a bounty payout scenario. Other incentives could be attributed to community activities such as content contributed. External providers such as Oracles will also be paid out via this allocation.

3.2.5 Participant Incentive of 15%, vested over 24 months.

This incentive encompasses activities such as airdrops for the first number of deals on our platform or any other action supporting market adoption of the protocol.

3.2.6 Reserve of 15%, vested over three years.

The Reserve funding covers operational aspects of the DRT platform, such as reserves for compensation claims. Those claims cover technical outages or malfunctions mainly anticipated around oracles triggering payouts prematurely due to technical issues.

3.2.7 Treasury 10%, non-vested.

This allocation is restricted to managing the demand/supply of the Liquidity Pool necessary for its buyback schemes. The treasury also is allocated with fees accrued via the dealing activities of market participants.

3.3 LBP Phase

The LPB phase encompasses public sale activity from minting the DRSK token until the Liquidity Pool allocation. This phase constitutes the first open market allocation of the tokens.

3.3.1 TGE Event

The Token Genesis Event is when the DRSK tokens get minted at once. We will use providers with audited contracts to do so and will allocate the tokens as outlined in the next section. Generally, the same provider is then used to give vested tokens to a contract governing the schedule and distribute the ones for Public Sale to the Liquidity Bootstrapping Pool. Using audited contracts and an external provider shall help establish trust and transparency.

3.3.2 Liquidity Bootstrapping Pool

In the LBP phase, a liquidity bootstrapping pool is used for price discovery and token sales. An LBP provides several benefits compared to a traditional Liquidity Pool:

- Protection against snipers and whales as the token will initially start above the target price. Heavy buying activity will increase the price; hence whales and snipers work against the pricing curve, which economically disincentives them from draining the liquidity at the start.
- Capital efficiency is another property in favour of an LBP, such as in comparison to an LP; the collateral token's ratio, in our case probably AVAX and our DRSK token, is not constant. A ratio of 96:4, for example, was used for the token sale of Maple, making a successful token sale economically more efficient. We would fill the pool with 96% DRSK tokens and 4% AVAX or ETH in the example ratio. A token sale would target the opposite ratio at the end of the Sale.

3.3.3 Liquidity Pool allocation

Once the LBP auctioning has finished, a remainder of DRSK tokens will be allocated to a Liquidity Pool to a specific ratio with a collateral token like AVAX or ETH. This allocation produces Liquidity Pool tokens which are distributed to the Treasury. DRSK token will only be traded on Decentralized Exchanges.

3.3.4 Treasury allocation

Due to the initial activities, the Treasury will be allocated the DRSK token, the Liquidity Provider token, the collateral token, and USDC as the preferred stablecoins. As DRT is theoretically open to

multi-currency/tokens, all EVM compatible (ERC-20) tokens are potential assets of the Treasury, but as mentioned, the initial ones will be managed after inception. Liabilities are only DRSK tokens or swapped USDC.

3.3.5 Airdrops

To incentive first movers on our platform, we will distribute DRSK tokens via airdrops to the first number of users based on dealt volumes. Only matching deals will be anticipated as those generate revenue for the platform.

3.4 Treasury Market Intervention Phase

The treasury accumulates deal fees in USDC and provides them to Cerchia to support the business activities. Besides that, the vesting schedule provides the token to the treasury. As the initial phases will be rolled out without a DAO, it will intervene with buybacks around the end of vesting schedules or, in general, supply surges. It does so with buyback schemes to reduce liquidity and maintain a positive price evolution; it does so via Liquidity Providers.

It is anticipated that those schemes can be parameterized and automated; the parameters are:

- Circulating supply
- LP Price
- Time
- Deal Activity

Once the DAO is implemented, the parameters are up for votes within safe rails.

3.5 DAA (DAO) Governance Phase

The DAA Governance will add more decentralization to the protocol. A DAA is a Decentralized Autonomous Association with the same properties as a DAO. For this document, the difference is not relevant. Once the regulatory context is clarified, DRSK tokens will be attributed according to deal activity by participants. Since the addresses of those parties are well known, they will receive a higher ratio of voting powers as they are fundamental to the marketplace's success and act in

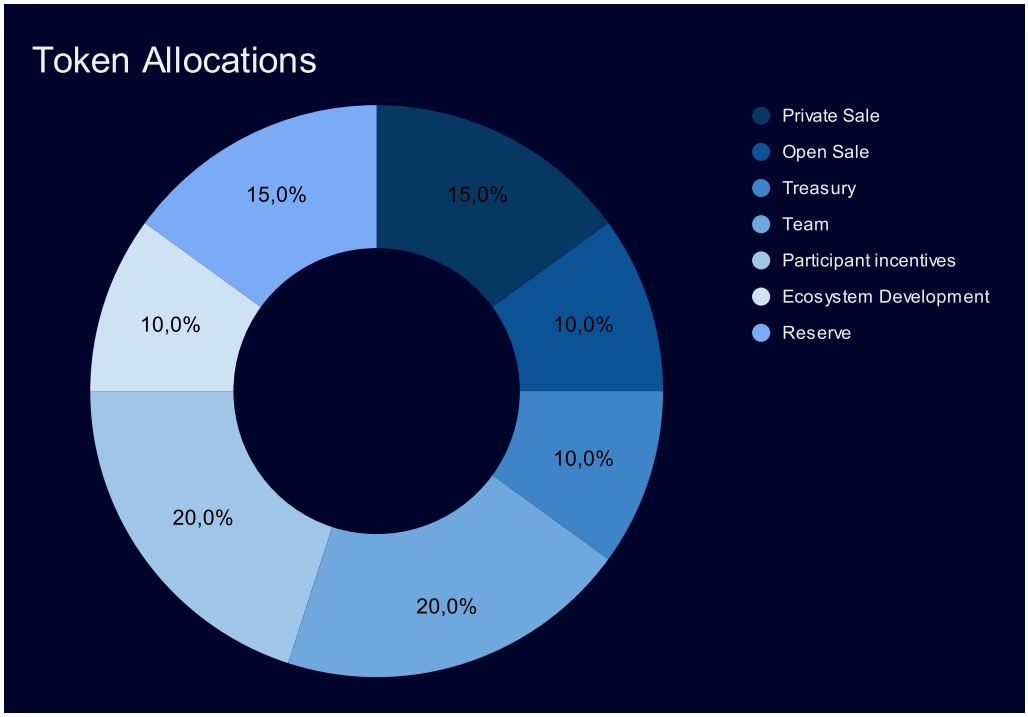
its best interest. This phase will add to a relatively higher drain of Treasury DRSK tokens to be supplied, so the previous stage needs to be well-calibrated to support this.

DAA votes are generally envisioned around the topics:

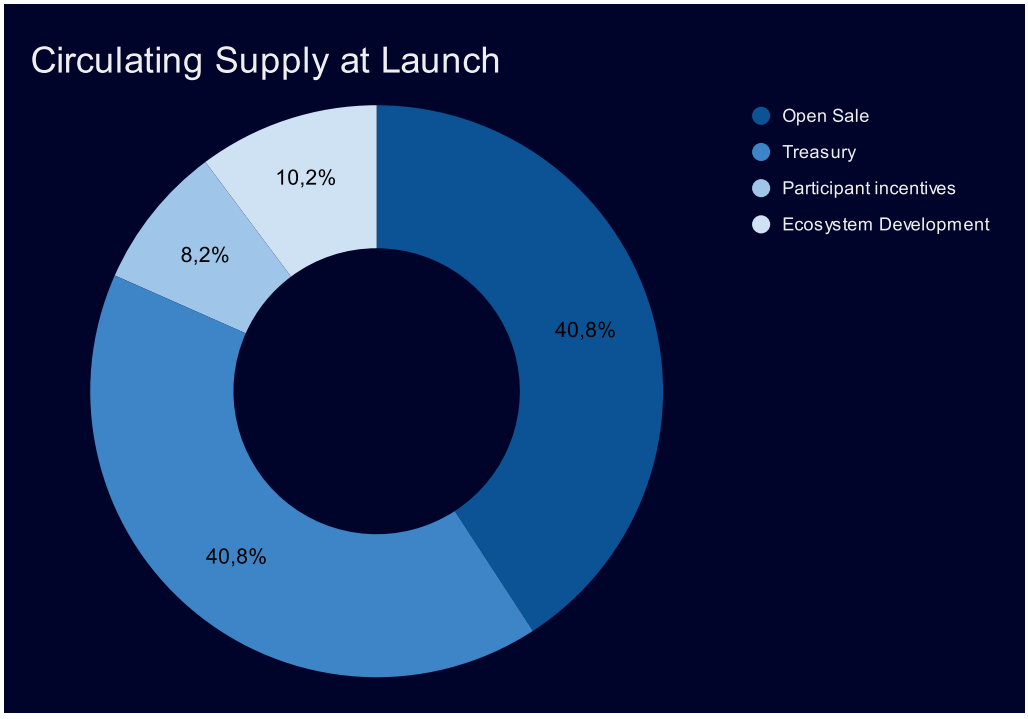
- Treasury parameters
- Compensation claims
- New indices

Appendix A

A. Token Allocations



B. Circulating Supply at Launch



C. Token Vesting