

KAU/KAG – ERC20 WHITEPAPER

Table of Contents

1. Executive Summary
2. Introduction
3. Advantages
4. Blockchain Technology
5. Backing Token – KAU/KAG
6. Potential Use Cases
7. Partnerships and Integrations
 - 7.1 Exchanges
 - 7.2 Payment Processors
 - 7.3 Wallet Providers
 - 7.4 DeFi Projects
8. Risk Factors
 - 8.1 Operational Risks
 - 8.2 Regulatory / Legal Risks
 - 8.3 Counterparty Risks
9. Conclusion

KAU/KAG – ERC20 WHITEPAPER

1. EXECUTIVE SUMMARY

This whitepaper describes digital gold and silver tokens, KAU Gold ERC20 (“KAUe”) and KAG Silver ERC20 (“KAGe”). Our mission is to empower users with digital gold and silver assets utilizing the Ethereum ERC20 token standard with tokens issued by **KMS Labs, S.A.**, a Panamanian company (“**Issuer**”), that combine the historical value and stability of precious metals and the seamless efficiency of advanced blockchain technology.

[NOTE: KAUe/KAGe are not ticker symbols, nor external naming conventions; they are only expressly used in this whitepaper to denote that they are ERC20 based tokens, rather than Stellar KAU/KAG tokens]

KAUe and KAGe digital currencies are backed with existing Stellar KAU/KAG issued by Kinesis Cayman, that in turn are backed 1:1 with allocated physical gold and silver. Allocated means that title to the bullion for the 1:1 backing of KAU and KAG tokens issued by Kinesis Cayman are allocated to the owner of the respective tokens.

Gold Digital Currency – KAUe

Description: KAUe, backed 1:1 with KAU, being 1 fine gram gold contract and token, consisting of gold bars of minimum fineness of 9999, and bearing a serial number and identifying stamp of a refiner as per a robust quality assurance and provenance framework and table of approved refiners list.

Silver Digital Currency – KAGe

Description: KAGe, backed 1:1 with KAG, being 1 oz silver contract and token, consisting of silver cast bars of minimum fineness of 999, and bearing a serial number and

KAU/KAG – ERC20 WHITEPAPER

identifying stamp of a refiner as per a robust quality assurance and provenance framework and table of approved refiners list.

KAUe/KAGe are designed as a blockchain-based tokens referencing precious metals and intended to provide a consistent store of value for users interacting with both centralized and decentralized systems. KAUe/KAGe holders can utilize the token to gain direct exposure to the highly liquid, global gold and silver price, within the most utilized blockchain ecosystem (Ethereum ERC20).

Through its combination of underlying value and technological efficiency, KAUe and KAGe aim to serve as useful digital currencies for both institutional and retail users seeking benefits of blockchain-based transactions with ultimate exposure to the liquidity and value of the global gold and silver markets.

2. INTRODUCTION

Cryptocurrencies have several advantages over fiat currencies. For example, they transact much faster than bank wires, have lower transaction costs, and transactions are publicly auditable. However, there are several barriers to the mainstream adoption of cryptocurrencies. Cryptocurrencies have previously been volatile, where value can fluctuate drastically over a short period of time, making them a risky form of investment with limiting usage in daily transactions.

KAU/KAG – ERC20 WHITEPAPER

Digital gold and silver referenced currencies are digitally native instruments that are designed to maintain a more stable and historical store of value compared to other many other cryptocurrencies.

We believe digital gold and silver referenced tokens can act as a bridge between the traditional financial system and the crypto-economy, allowing gold and silver referenced currencies to exist in a form that can move more freely and more efficiently on blockchains. Unlike conventional transaction methods, digital gold and silver referencing tokens require no centralized intermediary.

Third-parties holding or interacting with KAUE/KAGE, may decide, based on the jurisdiction regulations they operate within, on how to utilize KAUE/KAGE.

KAUE/KAGE provides users with a digital currency referencing a historical store of value, physical gold and silver in vaults.

KAUE/KAGE can be deployed in use cases that improve the efficiency of financial transactions by reducing transaction costs and improving the speed and accuracy of these transactions in a secure manner. KAUE/KAGE can also be deployed in use cases that facilitate cross-border transactions and reduce the fees and processing times associated with traditional methods.¹

¹ The Issuer does not offer or engage in any remittance or payment services. Any payments made using KAUE/KAGE would occur on a peer-to-peer basis without the involvement of the Issuer.

KAU/KAG – ERC20 WHITEPAPER

The inherent historical value of KAUE/KAGE is preserved through the downstream maintenance of a 1:1 allocated physical backing which is accessible to users by a two-step redemption process. This is achieved by ensuring that the value of the physical gold or physical silver assets held matches or exceeds the total quantity of outstanding KAUE/KAGE in circulation. In essence, the physical assets support the issuer's commitment to honor redemptions of KAUE/KAGE at market value, subject to contractual contingencies. It is important to note that KAUE/KAGE backing is segregated from the issuer's assets.

Furthermore, KAUE/KAGE can be programmed, allowing financial contracts and escrow without intermediaries.

3. ADVANTAGES

- **Transferable**

As a fungible form of digital instruments, KAUE/KAGE enables low-friction and streamlined transactions, rendering them a convenient choice for a wide range of applications and scenarios.

- **Redeemable**

KAUE/KAGE are backed 1:1 with KAU/KAG, which are in turn backed 1:1 with physical gold and silver in audited and insured non-bank vault providers. It is contemplated that Holders will have the ability to submit redemption for KAU/KAG and thereafter, via a

KAU/KAG – ERC20 WHITEPAPER

Kinesis Cayman KMS Account, physical gold and silver, all subject to terms and conditions.

- **Programmable**

KAUe/KAGe are programmable, allowing for the creation of smart contracts and escrow services arrangements without intermediaries. This programmability empowers users with greater control over their transactions while reducing counterparty risk, transaction costs and increasing transaction speed and accuracy.

- **Low Fees**

A notable benefit of KAUe/KAGe as digital currencies on the blockchain are their ability to offer cost-effective transactions with minimal fees. Unlike traditional financial transactions, which often incur high fees, blockchain-based transactions generally involve lower costs. This cost-efficiency makes KAUe/KAGe an attractive and economical choice for users.

- **Operates on Decentralized Networks**

As digital precious metal currencies built on blockchain technology, KAUe/KAGe can operate on decentralized networks that are distributed across multiple nodes. In so doing, it enhances transparency, security, and resilience, as no single entity has complete control over the network.

4. BLOCKCHAIN TECHNOLOGY

Each KAUe and KAGe issued into circulation is intended to be backed in a one-to-one ratio with Kinesis Cayman issued KAU/KAG, with the equivalent amount of

KAU/KAG – ERC20 WHITEPAPER

corresponding allocated physical gold and silver bullion in the fully insured and audited global vaults.

KAUe/KAGe will be issued on the Ethereum public blockchain network using the popular ERC-20 standard. ERC20 tokens on Ethereum are compatible with a wide range of DeFi protocols and centralized exchanges.

By using established public ledgers, market participants can utilize existing monitoring applications to view KAUe/KAGe issued and transactions. In this way, participants can follow the tokens issued or claimed by the Issuer as well as other on-chain transactions. Distributed ledger technology is subject to transaction verification via the Proof of Stake mechanisms, which may result in verification fees paid to participants engaged in stake activities, otherwise known as “gas fees”. Fees vary across blockchains.

KAUe/KAGe Digital Currencies

KAUe/KAGe are digital currencies referencing precious metals available on the Ethereum using the ERC20 standard.

5. TOKEN BACKING – KAU/KAG

KMS Labs, S.A utilizes the KAU/KAG tokens, issued by Kinesis Cayman on a fork of the Stellar blockchain, to provide the 1:1 backing of KAUe and KAGe.

Currently, KAU is the third largest gold token in the world and KAG is the largest silver token.

KAU/KAG – ERC20 WHITEPAPER

Kinesis Cayman is a full member of the Allocated Bullion Exchange (ABX). ABX (www.abx.com) an Australian company, operating the world's leading electronic institutional exchange for allocated spot physical precious metals and has been in operation since 2013. ABX has seven physical trading, pricing and vaulting hubs across the globe. By being a full member of ABX, Kinesis Cayman directly integrates the allocated 1:1 physical gold and silver backing of KAU/KAG, and onward to KAUE/KAGE, into the ABX Global Vaulting Network.

6. POTENTIAL USE CASES

KAUE/KAGE offers various use cases in both the financial and technological sectors due to its inherent stability and digital nature. These use cases are not services or functions provided or operated by the Issuer, but rather, third party service providers or on a peer-to-peer basis. Some prominent product and tech use cases can include:

- **Remittances:** KAUE/KAGE, being directly tied to the highly liquid and stable global gold and silver markets, enable fast and cost-efficient cross-border transactions with less exposure to individual currencies and conversion fees, making them an attractive option for remittance services. Utilizing KAU/KAG reduces the fees and latency associated with traditional remittance methods.

KAU/KAG – ERC20 WHITEPAPER

- **DeFi:** accessing yield farming, lending, and borrowing platforms.² Users can lend or stake their KAUE/KAGE to earn interest or participate in liquidity mining programs if those services are available in a user's location.
- **Escrow services:** KAUE/KAGE can be used as a means of collateral in escrow services, providing a more predictable and stable value in comparison to many volatile cryptocurrencies.
- **Hedging against volatility:** Traders and holders can use KAUE/KAGE as safe haven assets during periods of high market volatility. By converting their volatile cryptocurrencies to KAUE/KAGE, they can temporarily protect their holdings from unforeseen price fluctuations.
- **Financial Inclusion:** KAUE/KAGE can be utilized in regions with underdeveloped financial infrastructure, offering access to essential financial services like savings and loans. This can help bring financial stability and security to individuals and businesses that lack traditional banking services.

7. PARTNERSHIPS & INTEGRATIONS

Partnerships and integrations can play a crucial role in the success of digital precious metals currencies. By collaborating with projects and platforms, KAUE/KAGE adoption should increase and provide users with more opportunities to use them in various ways.

7.1 Exchanges

² These are not offered by the Issuer.

KAU/KAG – ERC20 WHITEPAPER

To partner with cryptocurrency exchanges to increase their liquidity and trading volume. By listing on popular exchanges, digital gold and silver referenced currencies can become more accessible to users and improve their overall utility.

7.2 Payment Processors

A key offering of KAUE/KAGE is to give users a kind of exposure to the gold and silver markets without the transaction fees that commonly accompany stores of these assets in transactions. By removing traditional financial intermediaries, KAUE/KAGE offers a more efficient way of purchasing, transacting and storing value in gold and silver.

7.3 Wallet Providers

To partner with wallet providers to make it easier for users to store and transact. This can increase the user base of the digital gold and silver referenced currencies and make it more convenient for users to hold and use them.

7.4 DeFi Projects

Decentralized finance (DeFi) platforms can integrate KAUE/KAGE to provide users access to decentralized lending, borrowing, and trading. This can increase the overall utilities of the digital gold and silver referenced currencies and provide users with more opportunities for creative uses of KAUE/KAGE.

8. RISK FACTORS

Issuers of physical asset-backed digital currencies need to ensure robust physical asset management to instill confidence, ensure the ultimate 1:1 physical asset backing.

For KAUE/KAGE, the Issuer, having 1:1 backing of KAU/KAG (issued by Kinesis Cayman), maintains the 1:1 physical allocated gold and silver backing by the Kinesis Cayman partnership with ABX and the ABX Global Vault Network.

8.1 Operational Risks

Asset backed digital currencies and other crypto assets are exposed to operational risks, including fraud and cyber risks. These risks stem from various factors, including the complex nature of the cryptocurrency ecosystem, reliance on third-party service providers like exchanges, as well as the absence of effective remedies for the loss or theft of crypto assets. To mitigate these risks, we employ several strategies for improved security measures to safeguard against cyber threats and implement robust due diligence processes when engaging with third-party service providers.

8.2 Regulatory / Legal Risks

The regulatory landscape for issuing digital assets is evolving and shifting rapidly, and changes in regulations in different jurisdictions may impact the availability and viability of KAUE/KAGE in those jurisdictions, depending upon the legal structure of those external parties facing the Issuer. KMS Labs, S.A is currently fully able to Issue KAUE/KAGE from our domiciled jurisdiction and will continue to keep abreast of any regulatory changes and requirements that may arise in the future.

8.3 Counterparty Risks

The involvement of intermediaries in vaulting and redemption processes can introduce additional risks, such as delays in claims and increased costs. These intermediaries include Kinesis Cayman, ABX and its vaulting partners.

9. CONCLUSION

We believe that KAUE/KAGE digital currencies encompasses a wide array of benefits that greatly enhance user experiences, including redeemable properties, programmability, regulatory compliance, accessibility, low transaction fees, bankruptcy remote functionality, decentralization, and seamless trading capabilities. These attributes collectively create a secure, efficient, and convenient digital currency options for users, offering reliability and stability in their financial transactions. Whether for cross-border payments, smart contract executions, or day-to-day transactions, KAUE/KAGE's remarkable features make it an enticing choice for users seeking a trusted and dependable solution within the realm of cryptocurrencies.

KAUE/KAGE are backed 1:1 with KAU/KAG, which is in turn 1:1 physically backed gold and silver digital currencies that combines transparency, security, and blockchain-native utility. For the Issuer, KAUE/KAGE are expressly not intended to function as a payment

KAU/KAG – ERC20 WHITEPAPER

mechanism or financial product. Its focus is on delivering asset exposure and value for users participating in decentralized ecosystem.