MiCA White Paper

SKY (SKY)

Version 1.0
August 2025

White Paper in accordance with Markets in Crypto Assets Regulation (MiCAR)
for the European Economic Area (EEA).

Purpose: seeking admission to trading in EEA.

Prepared and Filed by LCX.com

NOTE: THIS CRYPTO-ASSET WHITE PAPER HAS NOT BEEN APPROVED BY ANY COMPETENT AUTHORITY IN ANY MEMBER STATE OF THE EUROPEAN ECONOMIC AREA. THE PERSON SEEKING ADMISSION TO TRADING IS SOLELY RESPONSIBLE FOR THE CONTENT OF THIS CRYPTO-ASSET WHITE PAPER ACCORDING TO THE EUROPEAN ECONOMIC AREA'S MARKETS IN CRYPTO-ASSET REGULATION (MICA).

LCX is voluntarily filing a MiCA-compliant whitepaper for SKY (SKY), even though SKY is classified as "Other Crypto-Assets" under the Markets in Crypto-Assets Regulation (MiCA). Unlike Asset-Referenced Tokens (ARTs), Electronic Money Tokens (EMTs), or Utility Tokens, SKY does not legally require a MiCA whitepaper. However, MiCA allows service providers to publish a whitepaper voluntarily to enhance transparency, regulatory clarity, and investor confidence.The SKY token serves as the native token of the Sky Protocol, a Layer 2 data availability platform built on Cardano and Ethereum. Introduced in 2024 as part of the protocol's evolution from MakerDAO, SKY enables holders to participate in on-chain governance—voting on key parameters including protocol fees, economic models, and treasury allocations. Holders also earn rewards through staking mechanisms, including Activation and Seal modules, and can use SKY as collateral within the protocol's DeFi ecosystem.

This document provides essential information about SKY's characteristics, risks, and the framework under which LCX facilitates SKY-related services in compliance with MiCA's regulatory standards.

This white paper has been prepared in accordance with the requirements set forth in Commission Implementing Regulation (EU) 2024/2984, ensuring that all relevant reporting formats, content specifications, and machine-readable structures outlined in Annex I of this regulation have been fully mapped and implemented, particularly reflected through the Recitals, to enable proper notification under the Markets in Crypto-Assets Regulation (MiCAR).

00 TABLE OF CONTENT

01 DATE OF NOTIFICATION

2025-09-01

COMPLIANCE STATEMENTS

02 This crypto-asset white paper has not been approved by any competent authority in any Member State of the European Economic Area. The offeror of the crypto-asset is solely responsible for the content of this crypto-asset white paper.

Where relevant in accordance with Article 6(3), second subparagraph of Regulation (EU) 2023/1114, reference shall be made to ‘person seeking admission to trading’ or to ‘operator of the trading platform’ instead of ‘offeror’.

03 This crypto-asset white paper complies with Title II of Regulation (EU) 2023/1114 and, to the best of the knowledge of the management body, the information presented in the crypto-asset white paper is fair, clear and not misleading and the crypto-asset white paper makes no omission likely to affect its import.

04 The crypto-asset referred to in this white paper may lose its value in part or in full, may not always be transferable and may not be liquid.

05 Not Applicable

06 The crypto-asset referred to in this white paper is not covered by the investor compensation schemes under Directive 97/9/EC of the European Parliament and of the Council.The crypto-asset referred to in this white paper is not covered by the deposit guarantee schemes under Directive 2014/49/EU of the European Parliament and of the Council.

SUMMARY

07 Warning

This summary should be read as an introduction to the crypto-asset white paper. The prospective holder should base any decision to purchase this crypto-asset on the content of the crypto-asset white paper as a whole and not on the summary alone. The offer to the public of this crypto-asset does not constitute an offer or solicitation to purchase financial instruments and any such offer or solicitation can be made only by means of a prospectus or other offer documents pursuant to the applicable national law.

This crypto-asset white paper does not constitute a prospectus as referred to in Regulation (EU) 2017/1129 of the European Parliament and of the Council (36) or any other offer document pursuant to Union or national law.

08 Characteristics of the crypto-asset

SKY is the native governance token of the Sky Protocol, a decentralized finance (DeFi) platform evolved from the MakerDAO system. The Sky Protocol (formerly known as MakerDAO) provides a stablecoin (USDS, formerly DAI) and a suite of DeFi services, and SKY token powers its governance and incentive mechanisms. SKY is an ERC-20 token on the Ethereum blockchain with additional functionality (EIP-2612 “permit” and EIP-1271 signature validation) [OBJ]. Holders of SKY can use it to vote on proposals and parameter changes for the Sky Protocol, influencing decisions such as stability fees, collateral additions, or system upgrades. SKY tokens can also be “upgraded” or converted from the legacy MKR tokens at a fixed rate of 1 MKR = 24,000 SKY, a process which effectively redenominated the governance token supply. Apart from governance voting rights and participation in certain reward programs, SKY does not grant holders any claim on assets, dividends, or other financial rights – it confers no ownership stake in a legal entity and no entitlement to profits. Once tokens are acquired, transactions are executed on the Ethereum network and are final and irreversible when confirmed. Changes to SKY token holders’ rights or token functionality can only occur through the decentralized governance process (i.e. approval by SKY holders of protocol upgrades); there is no central authority unilaterally modifying the token’s features. SKY is not an Asset-Referenced Token (ART) or E-Money Token (EMT), and while it has utility within the Sky ecosystem (governance and access to certain protocol features), it is not classified as a “utility token” under MiCA’s definition. It therefore falls under the category of “Other Crypto-Assets”. As such, SKY is not subject to specific issuance authorization under MiCA, but service providers (exchanges, custodians, etc.) dealing in SKY must comply with MiCA’s conduct and transparency rules.

09 Not applicable

10 Key information about the offer to the public or admission to trading

There is no new public offering of SKY tokens – the token is already created and distributed through the conversion of MKR and ongoing protocol operations. Instead, this document is prepared in the context of admission to trading of SKY on a regulated crypto-asset trading platform (LCX). LCX AG, as a Liechtenstein-based regulated exchange operator, is facilitating the listing and trading of SKY in compliance with MiCA. LCX is not the issuer of SKY and does not control its supply; LCX’s role is limited to providing a trading venue and custody services for the token in a compliant manner. This white paper is being published voluntarily to provide transparency and standardized information to investors regarding SKY’s characteristics, given its listing on the LCX exchange. Since SKY is already in circulation and traded (including on decentralized exchanges following its creation), this admission does not involve any new token sale or fundraising. The trading of SKY on LCX will occur under market conditions – prices determined by supply and demand in the market. LCX supports trading pairs for SKY (e.g., SKY/EUR) to provide liquidity for participants. By issuing this MiCA-compliant white paper and

notifying the Liechtenstein Financial Market Authority (FMA), LCX ensures that trading of SKY on its platform adheres to the new regulatory standards for investor protection and disclosure.

Total offer amount	Not applicable
Total number of tokens to be offered to the public	Not applicable
Subscription period	Not applicable
Minimum and maximum subscription amount	Not applicable
Issue price	Not applicable
Subscription fees (if any)	Not applicable
Target holders of tokens	Not applicable
Description of offer phases	Not applicable
CASP responsible for placing the token (if any)	Not applicable
Form of placement	Not applicable
Admission to trading	LCX AG, Herrengasse 6, 9490 Vaduz, Liechtenstein

A. PART A - INFORMATION ABOUT THE OFFEROR OR THE PERSON SEEKING ADMISSION TO TRADING

A.1 Name

LCX

A.2 Legal Form

AG

A.3 Registered Address

Herrengasse 6, 9490 Vaduz, Liechtenstein

A.4 Head Office

Herrengasse 6, 9490 Vaduz, Liechtenstein

A.5 Registration Date

24.04.2018

A.6 Legal Entity Identifier

529900SN07Z6RTX8R418

A.7 Another Identifier Required Pursuant to Applicable National Law

FL-0002.580.678-2

A.8 Contact Telephone Number

+423 235 40 15

A.9 E-mail Address

legal@lcx.com

A.10 Response Time (Days)

020

A.11 Parent Company

Not applicable

A.12 Members of the Management Body

Full Name	Business Address	Function
Monty C. M. Metzger	Herrengasse 6, 9490 Vaduz, Liechtenstein	President of the Board
Katarina Metzger	Herrengasse 6, 9490 Vaduz, Liechtenstein	Board Member
Anurag Verma	Herrengasse 6, 9490 Vaduz, Liechtenstein	Director of Technology

A.13 Business Activity

LCX provides various crypto-asset services under Liechtenstein's Token and Trusted Technology Service Provider Act ("Token- und Vertrauenswürdige Technologie-Dienstleister-Gesetz" in short "TVTG") also known as the Blockchain Act. These include custody and administration of crypto-assets, offering secure storage for clients' assets and private keys. LCX operates a trading platform, facilitating the matching of buy and sell orders for crypto-assets. It enables both crypto-to-fiat and crypto-to-crypto exchanges, ensuring compliance with AML and KYC regulations. LCX also supports token placements, marketing crypto-assets on behalf of offerors.

Under MiCA, LCX is classified as a Crypto-Asset Service Provider (CASP). LCX is not yet formally supervised under MiCA until the license is granted by the competent authority. LCX AG has applied for MiCA licensing on February 1, 2025, the first day of MiCA's implementation in Liechtenstein.

Under the TVTG framework, LCX provides:

- TT Depositary – Custody and safekeeping of crypto-assets.
- TT Trading Platform Operator – Operation of a regulated crypto-asset exchange.
- TT Exchange Service Provider – Crypto-to-fiat and crypto-to-crypto exchange.
- Token Issuer – Marketing and distribution of tokens.
- TT Transfer Service Provider – Crypto-asset transfers between ledger addresses.
- Token Generator & Tokenization Service Provider – Creation and issuance of tokens.
- Physical Validator – Enforcement of token-based rights on TT systems.
- TT Verification & Identity Service Provider – Legal capacity verification and identity registration.
- TT Price Service Provider – Providing aggregated crypto-asset price information.

A.14 Parent Company Business Activity

Not applicable

A.15 Newly Established

false

A.16 Financial Condition for the past three Years

LCX AG has a strong capital base, with CHF 1 million (approx. 1,126,000 USD) in share capital (Stammkapital) and a solid equity position (SKYkapital) in 2023. The company has experienced fluctuations in financial performance over the past three years, reflecting the dynamic nature of the crypto market. While LCX AG recorded a loss in 2022, primarily due to a market downturn and a security breach, it successfully covered the impact through reserves. The company has remained financially stable, achieving revenues and profits in 2021, 2023 and 2024 while maintaining break-even operations.

In 2023 and 2024, LCX AG strengthened its operational efficiency, expanded its business activities, and upheld a stable financial position. Looking ahead to 2025, the company anticipates positive financial development, supported by market uptrends, an inflow of customer funds, and strong business performance. Increased adoption of digital assets and service expansion are expected to drive higher revenues and profitability, further reinforcing LCX AG’s financial position.

A.17 Financial Condition Since Registration

LCX AG has been financially stable since its registration, supported by CHF 1 million in share capital (Stammkapital) and continuous business growth. Since its inception, the company has expanded its operations, secured multiple regulatory registrations, and established itself as a key player in the crypto and blockchain industry.

While market conditions have fluctuated, LCX AG has maintained strong revenues and break-even operations. The company has consistently reinvested in its platform, technology, and regulatory compliance, ensuring long-term sustainability. The LCX Token has been a fundamental part of the ecosystem, with a market capitalization of approximately $200 million USD and an all-time high exceeding $500 million USD in 2022. Looking ahead, LCX AG anticipates continued financial growth, driven by market uptrends, increased adoption of digital assets, and expanding business activities.

B. PART B - INFORMATION ABOUT THE ISSUER, IF DIFFERENT FROM THE OFFEROR OR PERSON SEEKING ADMISSION TO TRADING

B.1 Issuer different from offeror or person seeking admission to trading

True

B.2 Name

Skybase International (the legal entity associated with the Sky Protocol project)

B.3 Legal Form

Exempted Company (incorporated in the Cayman Islands).

B.4 Registered Address

9 Forum Lane, c/o Leeward Management Ltd., Suite 3119, Camana Bay, Grand Cayman, KY1-9006, Cayman Islands.

B.5 Head Office

9 Forum Lane, c/o Leeward Management Ltd., Suite 3119, Camana Bay, Grand Cayman, KY1-9006, Cayman Islands.

B.6 Registration Date

2024 (Exact incorporation date not publicly disclosed)

B.7 Legal Entity Identifier

Not applicable

B.8 Another Identifier Required Pursuant to Applicable National Law

Not applicable

B.9 Parent Company

Not applicable

B.10 Members of the Management Body

Not publicly disclosed.

B.11 Business Activity

Skybase International's role is to support the Sky Protocol by providing technical, legal, and marketing infrastructure. In practice, Skybase International operates and maintains the official web interface Sky.money, which is the non-custodial gateway for users to interact with the decentralized Sky Protocol.

B.12 Parent Company Business Activity

Not applicable

C. PART C - INFORMATION ABOUT THE OPERATOR OF THE TRADING PLATFORM IN CASES WHERE IT DRAWS UP THE CRYPTO-ASSET WHITE PAPER AND INFORMATION ABOUT OTHER PERSONS DRAWING THE CRYPTO-ASSET WHITE PAPER PURSUANT TO ARTICLE 6(1), SECOND SUBPARAGRAPH, OF REGULATION (EU) 2023/1114

C.1 Name

LCX AG

C.2 Legal Form

AG

C.3 Registered Address

Herrengasse 6, 9490 Vaduz, Liechtenstein

C.4 Head Office

Herrengasse 6, 9490 Vaduz, Liechtenstein

C.5 Registration Date

24.04.2018

C.6 Legal Entity Identifier

529900SN07Z6RTX8R418

C.7 Another Identifier Required Pursuant to Applicable National Law

FL-0002.580.678-2

C.8 Parent Company

Not Applicable

C.9 Reason for Crypto-Asset White Paper Preparation

LCX is voluntarily preparing this MiCA-compliant whitepaper for SKY (SKY) to enhance transparency, regulatory clarity, and investor confidence. While SKY does not require a MiCA whitepaper due to its classification as "Other Crypto-Assets", LCX is providing this document to support its role as a Crypto-Asset Service Provider (CASP) and ensure compliance with MiCA regulations in facilitating SKY trading on its platform.

C.10 Members of the Management Body

Full Name	Business Address	Function
Monty C. M. Metzger	Herrengasse 6, 9490 Vaduz, Liechtenstein	President of the Board
Katarina Metzger	Herrengasse 6, 9490 Vaduz, Liechtenstein	Board Member
Anurag Verma	Herrengasse 6, 9490 Vaduz, Liechtenstein	Director of Technology

C.11 Operator Business Activity

LCX provides various crypto-asset services under Liechtenstein’s Token and Trusted Technology Service Provider Act (“Token- und Vertrauenswürdige Technologie-Dienstleister-Gesetz” in short “TVTG”) also known as the Blockchain Act. These include custody and administration of crypto-assets, offering secure storage for clients' assets and private keys. LCX operates a trading platform, facilitating the matching of buy and sell orders for crypto-assets. It enables both crypto-to-fiat and crypto-to-crypto exchanges,

ensuring compliance with AML and KYC regulations. LCX also supports token placements, marketing crypto-assets on behalf of offerors.

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- TT Verification & Identity Service Provider – Legal capacity verification and identity registration.
- TT Price Service Provider – Providing aggregated crypto-asset price information.

C.12 Parent Company Business Activity

Not Applicable

C.13 Other persons drawing up the white paper under Article 6 (1) second subparagraph MiCA

Not Applicable

C.14 Reason for drawing up the white paper under Article 6 (1) second subparagraph MiCA

Not Applicable

D. PART D - INFORMATION ABOUT THE CRYPTO-ASSET PROJECT

D.1 Crypto-Asset Project Name

SKY Protocol

D.2 Crypto-Assets Name

SKY

D.3 Abbreviation

SKY

D.4 Crypto-Asset Project Description

The Sky Protocol is a decentralized finance (DeFi) platform that emerged from the rebranding and overhaul of the MakerDAO system (as part of the “Endgame” upgrade). It consists of a blockchain-based protocol for issuing a collateral-backed stablecoin (USDS, formerly DAI), managing collateralized lending vaults, and governing these processes via a native governance token (SKY). The project’s core objective is to create a more scalable, user-friendly DeFi ecosystem that can “bring DeFi to the mass market” through innovations like Sky Token Rewards (staking rewards in SKY for stablecoin users) and Sky Savings Rate (yield on holding USDS). Key components of the Sky Protocol include:

- USDS stablecoin – a USD-pegged stablecoin that users can obtain by upgrading DAI or swapping USDC 1:1, or by borrowing against crypto collateral. USDS offers holders either a savings interest rate or the ability to earn SKY rewards, depending on user choice.
- SKY token – the governance token (and subject of this white paper) used for voting on protocol changes and distributed as rewards. SKY is an upgraded version of Maker’s MKR token (24,000:1 redenomination) and has a substantially larger supply to improve token accessibility and liquidity.
- Sky DAO governance – a decentralized autonomous organization of SKY holders who propose and vote on changes (e.g., risk parameters, adding collateral types, initiating upgrades). Governance decisions are executed via smart contracts; this ensures the system is controlled by its community of token holders rather than a centralized entity.
- SubDAOs (“Stars”) – independent but connected sub-organizations within the ecosystem. The Endgame plan introduced Sky Stars (formerly MakerDAO “Core Units” or subDAOs) which are specialized, semi-autonomous entities focusing on specific business areas (e.g., lending protocols, investment strategies). Each Star can have its own governance token and treasury, and they operate under the umbrella of the Sky brand while pursuing distinct objectives. For example, Spark is the first Star (a lending platform offering 6% returns on DAI/USDS deposits and facilitating USDS borrowing). These Stars are designed to enhance scalability and diversification of the ecosystem.
- Native applications – The primary user interface is Sky.money, a non-custodial web dApp that allows eligible users to perform conversions (MKR↔SKY, DAI↔USDS), access savings and reward features, and interact with governance. The project focuses on simplicity and ease of use in this app to lower barriers for mainstream users. In addition, Sky Portal and Sky Vote (vote.sky.money) are used for governance participation, and there are integrations with other DeFi protocols (e.g., bridges like Spark’s platform, etc.).

D.5 Details of all persons involved in the implementation of the crypto-asset project

The SKY project is a collaborative effort involving the core developers, the issuing foundation, and a decentralized community of node operators and users. Key parties include:

Full Name	Business Address	Function
Skybase International	Cayman Islands	Ecosystem and foundation
Core Development Team	Global	Development and smart contract
Validators / Node Operators	Global	Transaction Validation
Community	Global	SKY Community & SKY Holders

D.6 Utility Token Classification

false

D.7 Key Features of Goods/Services for Utility Token Projects

Not applicable

D.8 Plans for the Token

Not applicable

D.9 Resource Allocation

Not applicable

D.10 Planned Use of Collected Funds or Crypto-Assets

Not applicable

E. PART E - INFORMATION ABOUT THE OFFER TO THE PUBLIC OF CRYPTO-ASSETS OR THEIR ADMISSION TO TRADING

E.1 Public Offering or Admission to Trading

ATTR

E.2 Reasons for Public Offer or Admission to Trading

LCX is voluntarily filing a MiCA-compliant whitepaper for SKY (SKY) to enhance transparency, regulatory clarity, and investor confidence. While SKY is classified as “Other Crypto-Assets” under MiCA and does not require a whitepaper, this initiative supports compliance readiness and aligns with MiCA’s high disclosure standards. By doing so, LCX strengthens its position as a regulated exchange, ensuring a trustworthy and transparent trading environment for SKY within the EU’s evolving regulatory framework. Additionally, this filing facilitates market access and institutional adoption by removing uncertainty for institutional investors and regulated entities seeking to engage with SKY in a compliant manner. It further supports the broader market adoption and integration of SKY into the regulated financial ecosystem, reinforcing LCX’s role in shaping compliant and transparent crypto markets.

E.3 Fundraising Target

Not applicable

E.4 Minimum Subscription Goals

Not applicable

E.5 Maximum Subscription Goal

Not applicable

E.6 Oversubscription Acceptance

Not applicable

E.7 Oversubscription Allocation

Not applicable

E.8 Issue Price

Not applicable

E.9 Official Currency or Any Other Crypto-Assets Determining the Issue Price

Not applicable

E.10 Subscription Fee

Not applicable

E.11 Offer Price Determination Method

Not applicable

E.12 Total Number of Offered/Traded Crypto-Assets

As of mid-2025, approximately 21.26 billion SKY tokens are in circulation. This number fluctuates upward over time due to the ongoing emission of SKY rewards (roughly 600 million SKY per year distributed to USDS holders as incentives) [OBJ] [OBJ]. Maximum supply: SKY does not have a fixed hard cap. If all eligible MKR tokens are converted to SKY, about 24 billion SKY would exist (since ~1 million MKR × 24,000) – this can be considered the upper bound from conversion. Beyond that, additional SKY can enter circulation via the reward mechanisms or potential future governance decisions, so the supply is effectively unlimited (not capped). However, any significant changes to supply (aside from the predetermined reward schedule) would require community governance approval. It should be noted that MKR-to-SKY

conversions are voluntary and ongoing; as of the time of writing, a large majority of MKR has been converted, contributing to the current ~21.26 billion SKY supply. The remaining MKR (if converted) and the emission schedule account for future increases. The circulating supply figure above excludes any SKY that may be temporarily locked in governance contracts or reward contracts – essentially it represents all SKY held by participants or in circulation on markets.

E.13 Targeted Holders

ALL

E.14 Holder Restrictions

Not applicable

E.15 Reimbursement Notice

Not applicable

E.16 Refund Mechanism

Not applicable

E.17 Refund Timeline

Not applicable

E.18 Offer Phases

Not applicable

E.19 Early Purchase Discount

Not applicable

E.20 Time-Limited Offer

Not applicable

E.21 Subscription Period Beginning

Not applicable

E.22 Subscription Period End

Not applicable

E.23 Safeguarding Arrangements for Offered Funds/Crypto-Assets

Not applicable

E.24 Payment Methods for Crypto-Asset Purchase

SKY/EUR

E.25 Value Transfer Methods for Reimbursement

Not applicable

E.26 Right of Withdrawal

Not applicable

E.27 Transfer of Purchased Crypto-Assets

Not applicable

E.28 Transfer Time Schedule

Not applicable

E.29 Purchaser's Technical Requirements

Not applicable

E.30 Crypto-asset service provider (CASP) name

Not applicable

E.31 CASP identifier

Not applicable

E.32 Placement Form

NTAV

E.33 Trading Platforms name

LCX AG

E.34 Trading Platforms Market Identifier Code (MIC)

LCXE

E.35 Trading Platforms Access

SKY is widely traded on numerous cryptocurrency exchanges globally. SKY is not confined to any single trading venue; it can be accessed by retail and institutional investors worldwide through dozens of exchanges. LCX Exchange now supports SKY trading (pair SKY/EUR). To access SKY trading on LCX, users must have an LCX account and complete the platform's KYC verification, as LCX operates under strict compliance standards. Trading on LCX is available via its web interface and APIs to verified customers.

E.36 Involved Costs

Not applicable

E.37 Offer Expenses

Not applicable

E.38 Conflicts of Interest

Not applicable

E.39 Applicable Law

Not applicable – SKY (SKY) is a decentralized governance token of the Sky Protocol without a central issuing entity. As such, SKY itself is not governed by a single national legal framework. The applicable laws depend on the jurisdictions where it is traded or utilized. However, in relation to the admission to trading of SKY on LCX Exchange, the laws of Liechtenstein apply in accordance with Regulation (EU) 2023/1114 (MiCA) and other applicable EU financial regulations.

E.40 Competent Court

In case of disputes related to services provided by LCX, the competent court is: The Courts of Liechtenstein, with jurisdiction in accordance with Liechtenstein law and applicable EU regulations

F. PART F - INFORMATION ABOUT THE CRYPTO-ASSETS

F.1 Crypto-Asset Type

Other Crypto-Asset

F.2 Crypto-Asset Functionality

The SKY token's core functionality is to serve as the native token of the Sky Protocol. Holding SKY enables the owner to vote on governance proposals that determine the protocol's parameters and future (for example, adjusting USDS stability fees, electing delegates, initiating upgrades). In addition, SKY has a role in the protocol's incentive system: users who hold or stake SKY can receive rewards or yield under certain programs (e.g., locking SKY in the Activation contracts for additional USDS or partner token rewards) – effectively, SKY acts as an incentive mechanism to drive engagement in governance and stability in the system. Technically, SKY is an ERC-20 token on Ethereum, so it functions like any standard token (transferable, fungible, can be integrated into wallets, exchanges, DeFi protocols). It does not have built-in interest or dividend features; any increase in holdings comes from participating in protocol-defined reward schemes, not from the token contract itself. SKY can be freely traded, used as collateral on other DeFi platforms (if they accept it), and converted back to MKR on-chain via the MKR-SKY Converter for those who prefer the old token (as long as that converter remains active) [illegible]. To summarize, the functionality is primarily governance power and ecosystem utility[1] (via reward programs), with its value ultimately tied to the success and decisions of the Sky Protocol.

F.3 Planned Application of Functionalities

The functionalities of SKY are expected to be applied as the Sky ecosystem grows. Governance-wise, SKY will be used to vote on an expanding array of proposals – not just technical parameters, but potentially how subDAOs operate or how profits are allocated. One planned application is the "sealed governance" mechanism (Activation), where SKY tokens' governance function is leveraged to encourage long-term alignment: holders apply their SKY in a smart contract that both grants voting weight and yields rewards. This essentially applies the governance functionality to a staking use-case, deepening its role. Another future application is in protocol upgrades: as new features are developed, SKY holders will vote to adopt them (for example, migrating certain components to Layer-2 or integrating new collateral types). In terms of technical application, SKY's permit functionality (EIP-2612) might be utilized in wallets and exchanges to allow gas-less approvals, making it easier to integrate SKY into DeFi applications (e.g., allowing a lending platform to accept SKY as collateral with a signed permit rather than an on-chain approval transaction). If the Sky Protocol achieves its roadmap, SKY will also apply as a kind of index for the ecosystem's value – via the Smart Burn Engine, value from various activities (fees, surplus) is applied to buying/burning SKY, thereby applying the token's functionality as a value accrual mechanism. All in all, the planned use of SKY's functionalities revolve around governance, rewards, and value capture in an increasingly broad DeFi ecosystem, and each is rolled out in phases by community consensus.

F.4 Type of white paper

OTHR

F.5 The type of submission

NEWT

[1] While SKY provides utility within the ecosystem, it does not constitute a Utility Token under Article 3(1)(8) of MiCA, as its access rights are not contractually guaranteed nor tied to specific, identifiable goods or services.

F.6 Crypto-Asset Characteristics

SKY is a fungible, divisible digital token on Ethereum. It conforms to the ERC-20 standard for tokens [1], which means each SKY token is interchangeable and identical in rights with any other. It is divisible up to 18 decimal places (common for ERC-20 tokens), allowing fractional holdings and transfers. SKY's smart contract includes EIP-2612 (Permit) functionality, enabling off-chain signature approvals for transfers (so one can approve spending of SKY via a signed message rather than an on-chain transaction) [2]. It also includes EIP-1271, which allows contract wallets to validate signatures, useful for DAO contract interactions [3]. The token contract does not have any pause, mint (except the converter contract's controlled mint during MKR conversion), or blacklist functions beyond what's needed for the conversion process – after the initial conversion period, the SKY token behaves like a normal fixed-supply token (with inflation only coming from separate reward contracts). SKY's supply is managed by two mechanisms external to the token contract: the one-time conversion of MKR (which minted the initial SKY supply) and the continuous minting via the reward distributor. Those are governed by other contracts and protocol decisions. SKY itself has no built-in automatic burn or mint on transfer. It exists on Ethereum mainnet, meaning all transfers and balances are recorded on the Ethereum ledger and visible to the public. It can be stored in any Ethereum-compatible wallet and transacted with by paying gas in ETH. In summary, SKY's characteristics are those of a standard Ethereum token with additional signature functionality, designed to integrate smoothly into DeFi applications and governance systems.

F.7 Commercial name or trading name

SKY

F.8 Website of the issuer

https://sky.money

F.9 Starting date of offer to the public or admission to trading

2025-10-01

F.10 Publication date

2025-10-01

F.11 Any other services provided by the issuer

Not applicable

F.12 Language or languages of the white paper

English

F.13 Digital Token Identifier Code used to uniquely identify the crypto-asset or each of the several crypto assets to which the white paper relates, where available

Not available (none currently assigned)

F.14 Functionally Fungible Group Digital Token Identifier, where available

Not applicable

F.15 Voluntary data flag

true

F.16 Personal data flag

false

F.17 LEI eligibility

false

F.18 Home Member State

Liechtenstein

F.19 Host Member States

Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden.

G. PART G - INFORMATION ON THE RIGHTS AND OBLIGATIONS ATTACHED TO THE CRYPTO-ASSETS

G.1 Purchaser Rights and Obligations

Holders of SKY have the right to participate in the governance of the Sky Protocol by voting their tokens on proposals (each SKY typically equates to one vote, subject to governance contract specifics). This gives them influence over decisions like protocol parameter adjustments, addition of new collateral types, activation of emergency shutdown, or any system upgrades. SKY holders also have the right to receive certain protocol distributions or rewards if they opt in: for example, by locking SKY in the protocol's activation contracts, they may earn USDS or other tokens as rewards (though this is optional and not an automatic entitlement). All SKY holders have the right to transfer their tokens freely (except as limited by blockchain technicalities or regulatory sanctions) – they can sell, exchange, or use SKY at their discretion. They also have the right to convert SKY back to MKR via the converter contract while that mechanism is supported, though that is a technical feature rather than a legal right and could be discontinued if governance decides. Obligations: Merely holding SKY does not impose any obligations on the holder. SKY holders are not required to participate in governance (they may remain passive) and have no duties to the issuer or other holders. They carry the responsibility for managing their own tokens (e.g., securing private keys, paying gas for transactions). If they choose to exercise governance rights, they should adhere to the protocol's rules (such as voting during open voting periods, following proposal formats in the community), but these are voluntary community guidelines, not legal obligations. Holders should also abide by any applicable laws (for instance, sanctions prohibiting transactions with certain parties). No holder is required to provide additional funds or perform work as a condition of holding the token. In summary, SKY grants governance and usage rights, but imposes no mandated obligations beyond the inherent responsibilities of managing digital assets.

G.2 Exercise of Rights and Obligation

SKY holders exercise their governance rights by interacting with the Sky Protocol's smart contracts. In practice, to vote on proposals, a holder would use the official voting portal (e.g., vote.sky.money) or interact directly with the Chief governance contract, locking their SKY to submit a vote or support a proposal. Typically, governance may operate either by locking tokens in a voting contract or by snapshot mechanism; currently, it involves on-chain locking (as in Maker's governance model). Votes are usually weighted by the amount of SKY the voter has locked in support of a proposal. If a proposal meets the required support threshold (and other conditions like a governance delay elapse), it is executed by the system. Thus, to exercise voting rights, a holder needs to sign a transaction with their wallet to lock or vote their tokens. For protocol reward rights (like Activation rewards), a holder would exercise them by sending a transaction to the respective smart contract (for example, calling the contract function to lock their SKY in the Activation contract). After meeting any conditions (such as time lockup), they can withdraw their rewards or their tokens according to the rules. There is no centralized intermediary – these rights are exercised directly through the blockchain. LCX or the issuer are not involved in governance processes; it's between the holder and the Ethereum contracts. In terms of timeline, governance proposals often have a set voting period (e.g., a few days to a week) during which holders can cast votes. After that, results are tallied automatically. If a user doesn't vote in time, they lose the chance on that proposal but retain their tokens for future votes. Obligations (which are basically none mandatory) don't require "exercise," except that holders must take care of their own assets. If a holder wants to benefit from rights, they themselves must initiate action; if they do nothing, their only "right" exercised is simply to hold or transfer the token at will. The technical requirement to exercise any right is to have an Ethereum wallet capable of interacting with the smart contract (which the Sky web portal simplifies) and enough ETH to pay gas for the transaction. It's worth noting that the governance process has safety features: for instance, an executive proposal that passes may have a delay (like 24 hours) before execution, during which if malicious, token holders could

potentially trigger an emergency shutdown as a last resort. That is an extreme exercise of rights scenario: if something is going very wrong, MKR (now SKY) holders can vote to shut down the system, which is a right inherited from MakerDAO's design. Doing so would let USDS holders reclaim collateral and essentially freeze SKY governance thereafter. This is only used in emergencies. Overall, the exercise of SKY holder rights is self-executing via code – no need to register votes off-chain or go through another party – and obligations are minimal, focusing on self-custody and voluntary participation.

G.3 Conditions for Modifications of Rights and Obligations

Any modifications to the rights or obligations attached to SKY tokens would require a governance decision via the Sky DAO. Because SKY tokens themselves do not confer contractual claims, the "rights" are basically those defined by protocol parameters and smart contract logic. Changing these (for instance, introducing a new utility[2] for SKY, altering voting mechanics, or changing the token's emission schedule) would necessitate a proposal put to a vote of SKY holders. For example, if the community wanted to change the governance model (say from on-chain voting to vote delegation, or to adjust the 1 MKR : 24,000 SKY conversion ratio if it were ever revisited), such changes would be implemented through a smart contract upgrade or parameter change that must be approved by the required majority of SKY votes. There is no central authority that can unilaterally alter token holders' rights – the project is designed so that token holders collectively are the authority. From a legal perspective, the "rights" are not contractual promises but features of the open-source protocol. Thus, modifications are inherently transparent and consensual (by majority consensus). If, hypothetically, an issuer-affiliated entity wanted to change something like implementing a vesting restriction or limiting transfers (which would remove some existing rights), they could only do so by convincing the DAO to adopt such a change (which is unlikely unless seen as beneficial/security measure). In terms of process: MakerDAO's governance (and by extension Sky's) uses on-chain executive votes that, when passed, execute code changes. There's usually a security delay on execution for any major change, during which the community could intervene if necessary (e.g., via emergency shutdown in a worst case). So any fundamental modifications of token rights (like splitting the token, introducing new obligations, etc.) would be subject to these processes, giving holders both voice and visibility. If a holder disagrees with changes, their recourse is to vote against them, or ultimately, they can exit (sell their tokens) if the system is moving in a direction they don't like – there is no guaranteed right of redemption, but market exit is available. In summary: rights can only be modified through the protocol's governance (SKY holder vote). There is no scenario under MiCA or contract law where the issuer or offeror can change token holder rights unilaterally after issuance. Changes to how SKY works would effectively be changes in the open-source code, requiring community consent and often broad consensus among stakeholders.

G.4 Future Public Offers

Not applicable

G.5 Issuer Retained Crypto-Assets

Not applicable

G.6 Utility Token Classification

No

G.7 Key Features of Goods/Services of Utility Tokens

Not applicable

G.8 Utility Tokens Redemption

Not applicable

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[2] While SKY provides utility within the ecosystem, it does not constitute a Utility Token under Article 3(1)(8) of MiCA, as its access rights are not contractually guaranteed nor tied to specific, identifiable goods or services.

G.9 Non-Trading Request

True

G.10 Crypto-Assets Purchase or Sale Modalities

Not applicable

G.11 Crypto-Assets Transfer Restrictions

Not applicable

G.12 Supply Adjustment Protocols

The Sky Protocol includes mechanisms that can adjust the supply of SKY under certain conditions. Specifically: (1) Token Emissions for Rewards: As part of the Endgame plan, the protocol mints and distributes 600 million SKY per year to incentivize USDS holders (this is an ongoing inflation mechanism, releasing about 50 million SKY monthly to participants) . This increases supply gradually. (2) Smart Burn Engine (Buy-and-Burn): The protocol's Smart Burn Engine uses surplus revenues (earned in the system's stablecoin or other assets) to purchase SKY on the open market and burn it. This mechanism effectively reduces supply when the system is in surplus and helps support token value. It's not constant; it triggers when surplus reserves exceed a threshold, conducting surplus auctions ("Flap" auctions in Maker terminology) where SKY is bought and immediately burned. (3) Deficit Recovery (Dilution): If the protocol is in deficit (meaning liabilities exceed collateral, e.g., after a bad debt event), the governance has a mechanism akin to MakerDAO's "debt auctions." In such an event, the system can mint new SKY tokens to sell (auction) for USDS or collateral, raising funds to recapitalize the system. This would dilute SKY holders but is a backstop to maintain the stablecoin's solvency. Such debt auctions (called "Flop" auctions in Maker) only occur if there's bad debt; none have occurred in Maker for a long time outside of one incident in 2020. They remain an emergency protocol. (4) MKR-SKY Converter: Initially, the converter minted SKY when MKR was deposited and burned SKY when converting back to MKR . This doesn't change total combined supply of governance tokens, but within SKY supply: if someone converts MKR to SKY, new SKY is created (and corresponding MKR burned), and vice versa (burn SKY, re-mint MKR). Thus, depending on net conversions, SKY's supply could increase up to the max (if all MKR converts). At present, a large portion of MKR has converted to SKY, so remaining potential increase from conversions is limited. All these mechanisms are governed by code and overseen by governance. The parameters (annual reward rate, surplus buffer threshold, etc.) can be adjusted via votes. In summary, SKY's supply is dynamic: it can inflate through reward minting and possibly emergency dilution, and it can deflate through buy-backs and burns. These supply adjustments are transparent and rule-based, with the aim of balancing incentives and system health rather than maintaining a fixed supply.

G.13 Supply Adjustment Mechanisms

SKY's economic model relies on both algorithmic mechanisms and governance processes to adjust supply over time:

Reward Issuance: SKY rewards are generated by smart contracts at a predetermined rate (initially 600 million per year). Technically, this is achieved through a token distribution contract that has mint permissions for that amount of SKY. It periodically (e.g., block-by-block or per second) accumulates reward entitlements for addresses that hold USDS in the Savings contract, and users can claim the newly minted SKY from that contract . This mechanism increases SKY supply steadily; governance could modulate the rate or eventually turn it off via an on-chain vote if needed. The rationale is to bootstrap usage of USDS by rewarding it with SKY, albeit at the cost of diluting SKY.

Smart Burn Engine: When the protocol's surplus buffer (excess fees earned in USDS) exceeds a set limit, the system triggers a surplus auction. In this auction, a fixed amount of USDS (or DAI/USDS equivalent) is offered in exchange for SKY – essentially the system is buying SKY from bidders and then immediately burning that SKY. Bidders (which could be arbitrage bots) participate until the SKY price in the auction equilibrates with market price. The result is that surplus USDS is removed from the system and SKY supply is reduced by the amount purchased. The parameters like auction lot sizes (bump) are set in the Vow contract. This is an automatic mechanism: whenever the surplus goes above, say, X USDS, a surplus auction for X USDS kicks off to burn SKY. This mechanism is crucial for long-term value accrual of SKY, essentially returning protocol profits to token holders by reducing supply (which can increase each token's value).

Debt Auctions: If there is a deficit (detected when system debt > surplus), the Vow contract triggers a debt auction. In this, the system mints a lot of SKY (a fixed lot size, e.g. dump amount) and auctions it for whatever stablecoin or collateral asset it needs, effectively selling SKY to recapitalize. Participants bid by offering to pay the debt (in DAI/USDS) for a certain amount of newly printed SKY. The auction finalizes when the required stablecoin amount is raised; the winning bidder(s) get the new SKY, and the protocol cancels the bad debt. This increases supply. It's a last-resort mechanism to ensure solvency. Notably, MakerDAO has only used this once (in 2020 after a market crash), showing it's rarely triggered.

Converter: The MKR-SKY Converter mechanism was straightforward: when MKR is sent in, the contract burns that MKR and mints 24,000× SKY in return; when SKY is sent in for reverse conversion, it burns that SKY and mints (1/24,000) MKR. This ensured the combined supply reflects whichever token holders choose to hold. Over time, it's expected that most MKR would convert and the converter might be shut off by governance (Rune suggested a timeline for phasing MKR out). Any unconverted MKR effectively represent SKY that could still be minted if conversion happens, but MKR holders might also just keep MKR.

In all cases, these mechanisms are transparent and governed. They are encoded in the smart contracts (Vow for surplus/deficit auctions, reward contracts for emissions, Converter for swap). Changes to these mechanisms (like changing the 600M/year rate, or the parameters of auctions) require governance votes.

To summarize, SKY's supply adjustments operate via: algorithmic rewards, market-driven auctions for surplus and deficit, and one-time token swap conversions. These mechanisms aim to maintain the financial health of the protocol and incentivize participation, albeit introducing an inflationary bias in the near term and a deflationary pressure when the system is profitable. Investors should be aware that these supply changes will impact token scarcity (e.g., 600M/year is about ~2.8% annual inflation at 21.5B supply, decreasing as supply grows, and surplus burns will offset some inflation depending on protocol earnings).

G.14 Token Value Protection Schemes

False

G.15 Token Value Protection Schemes Description

Not Applicable

G.16 Compensation Schemes

False

G.17 Compensation Schemes Description

Not Applicable

G.18 Applicable Law

Not applicable – SKY (SKY) is a decentralized governance token of the Sky Protocol without a central issuing entity. As such, SKY itself is not governed by a single national legal framework. The applicable laws depend on the jurisdictions where it is traded or utilized. However, in relation to the admission to trading of SKY on LCX Exchange, the laws of Liechtenstein apply in accordance with Regulation (EU) 2023/1114 (MiCA) and other applicable EU financial regulations.

G.19 Competent Court

Not applicable - As SKY (SKY) is a decentralized, open-source crypto-asset with no central issuer or governing entity, it does not fall under the jurisdiction of any specific legal framework. In case of disputes related to services provided by LCX, the competent court is: The Courts of Liechtenstein, with jurisdiction in accordance with Liechtenstein law and applicable EU regulations.

H. PART H – INFORMATION ON THE UNDERLYING TECHNOLOGY

H.1 Distributed ledger technology

The SKY token and Sky Protocol operate on the Ethereum blockchain (mainnet). Ethereum is a widely used distributed ledger utilizing a decentralized network of nodes to maintain a public ledger of transactions. It is a public, permissionless blockchain, meaning anyone can join as a node or user, and transactions are transparent and globally verifiable. Ethereum provides the smart contract platform on which the Sky Protocol's contracts (for USDS, SKY, governance, etc.) run. Thus, SKY transactions and balances are recorded on Ethereum's ledger. Ethereum's block time is roughly ~12 seconds and it uses a Proof-of-Stake consensus (as detailed below). The blockchain identifier for Ethereum mainnet is chain ID 1. SKY's token contract address on Ethereum (for reference) is 0xE3… (note: the full address would be provided in technical documentation; it identifies the ERC-20 contract for SKY). All Sky Protocol smart contracts (collateral vaults, oracles, etc.) are also deployed on Ethereum and interlinked. By leveraging Ethereum, the project benefits from the network's security and existing infrastructure (wallets, explorers). Ethereum's ledger ensures immutability of Sky's transaction history and resilience against single-point failure due to its decentralized nature. Additionally, the project might interface with other distributed ledgers (e.g., bridging USDS to other chains like Base or Optimism in the future as implied by integration talk), but the primary and authoritative ledger for SKY is Ethereum Layer-1.

SKY Whitepaper: https://developers.sky.money/

Public block explorer: https://etherscan.io/

SKY Main repository: https://github.com/sky-ecosystem

SKY Developer portal: https://developers.sky.money/protocol/tokens/sky/

H.2 Protocols and Technical Standards

The Sky Protocol uses multiple well-established technical standards:

- ERC-20 token standard: SKY is implemented as an ERC-20 token, meaning it follows the Ethereum standard interface for fungible tokens (functions like transfer, approve, transferFrom, etc.) allowing compatibility with wallets and exchanges [OBJ].
- EIP-2612 (Permit): SKY token includes this standard, which allows holders to use a signed message to approve token spending (via permit function), enabling gasless

approvals. This makes interacting with DeFi (e.g. depositing into a contract) more user-friendly since one can combine approval and action in a single transaction if supported [OBJ].
- EIP-1271: The token (and possibly governance contracts) support this standard for signature verification by smart contract wallets [OBJ]. This means DAO-controlled wallets or Gnosis Safes can validate signatures as “owners” for Permit or other signing purposes, which is important for governance and multi-sig operations.

MakerDAO’s DSS (Dai Stablecoin System) contracts: The core protocol contracts that Sky uses are largely based on MakerDAO’s battle-tested system. This includes:

- The Vat (core accounting ledger for CDPs/vaults, tracking who owes what in USDS and collateral locked).
- The Vow (treasury contract that handles surplus and debt as described).
- The Jug (rate accumulator for stability fees) and Pot (savings rate accumulator) – these set and accumulate interest rates for borrowing and saving.
- The FLAP and FLOP contracts for auctions, and Dog/Clipper contracts (likely renamed in Endgame) for collateral liquidation auctions.

Oracle Security Module (OSM): a smart contract that buffers price feeds (delays oracle price by e.g. 1 hour) to give governance time to react to massive price swings.

Chief (Governance contract): This contract (or a modified version like “Governance Contract V2”) manages votes. Typically, MKR (now SKY) holders lock tokens into the Chief to give voting weight to either themselves or a delegate, and the Chief tallies votes for executive proposals.

- Spell (Executive Proposal) contracts: When governance wants to enact a change, a “spell” contract containing the new logic or parameter changes is deployed and, once it gains enough votes, the Chief contract gives it authority to execute and modify system state.
- Pause: A timelock contract that enforces a delay (e.g., 24 hours) between a vote passing and it executing. This allows emergency action if a malicious proposal passed.

These standards and contracts are all part of the technical framework. They have been slightly adjusted for Sky (e.g., parameter defaults, rebranding variables from MKR to SKY, DAI to USDS, etc., plus adding the new reward distribution contracts and SubDAO infrastructure).

Additionally, Sky may use the DS-Chief v1.2 which introduces vote delegation, but since Endgame, Rune mentioned something about governance changes – possibly using Soulbound token voting (SBV) or GovAlpha’s delegation model. But at launch, the Maker approach still stands.

In summary, Sky’s technical stack follows the MakerDAO DSS standards, Ethereum’s token standards, and introduced new standards for token upgrade:

The MKR-SKY Converter follows a custom but straightforward protocol (two ERC-20 tokens with a fixed conversion ratio function).

- Stars (SubDAOs) architecture: Each Star likely uses standard OpenZeppelin proxies for upgradeable contracts (the Aave governance post mentioned “sUSDS contract: UUPS upgradeable”, indicating they use the UUPS proxy pattern for the new stablecoin). So UUPS (EIP-1822) is used for upgradeable token (sUSDS) and possibly for other components. SKY itself is not upgradeable (it’s a fixed token contract).

- Standards for interoperability: The project integrates with others via standard interfaces (ERC-3156 for flash loans if any, etc., although Maker had a flash mint module).
- Everything is built in Solidity, following standard security patterns (DSAuth, DSNote modifiers from Maker's code, etc.). These standards collectively ensure that Sky's smart contracts interoperate with the broader DeFi ecosystem and are maintainable. The use of recognized standards (ERC-20, etc.) and inherited Maker contracts (audited by ChainSecurity, Trail of Bits) provides confidence in the protocol's reliability.

H.3 Technology Used

The technology stack of Sky Protocol consists of:

- Smart Contracts (Solidity): The core logic of the stablecoin system, governance, and token issuance is implemented in Solidity contracts deployed on Ethereum. This includes the modules derived from MakerDAO as detailed above. These contracts use a modular design: separate contracts for each functional area (core, oracles, auctions, voting).
- Ethereum Blockchain: Underlying network handling transaction ordering and finality (as described in H.1).
- Consensus Mechanism (Ethereum PoS): See H.4 for detail, but as technology, it means Sky relies on Ethereum's validator network for block production.
- Front-end Technology: Sky.money is a web application likely built with modern web frameworks (perhaps React) that interacts with the Ethereum blockchain via Web3/Ethers.js. It allows users to connect their wallets (MetaMask, etc.) and call the smart contract functions (like opening a vault, voting, claiming rewards). The front-end includes integration with wallet providers and possibly uses libraries like Web3Modal.
- Back-end/Infrastructure: To support the dApp, the Sky team likely runs infrastructure such as Ethereum node services (they might run their own nodes or use providers like Infura/Alchemy to broadcast transactions and fetch data). They may also run ancillary services such as bots for triggering auctions or distributing oracle price updates.
- Oracles: Sky Protocol relies on price oracles for collateral assets. MakerDAO historically used a decentralized oracle network where a set of trusted oracles push prices to an Oracle Security Module. Sky likely inherited the same or similar oracle system – possibly partnering with Chronicle Labs (formerly Maker's oracle team) or using Chainlink for some new collaterals. Oracles are off-chain components that feed data on-chain, using secure signing and median calculation. They are part of the tech stack (semi-off-chain component).
- SubDAO infrastructure: For Stars (like Spark), they may have separate sub-protocols possibly deployed on Ethereum or other chains. For example, Spark, a fork of Aave, might operate partly on Ethereum and partly on its own interface. Sky's technology extends to integrating those – e.g., the SPK token (Spark's token) distribution might be a contract on Ethereum cooperating with Sky's.
- Security Technology: The contracts incorporate certain security patterns (e.g., emergency shutdown global settle function, governance delay, layered access control through DSAuth). The team also has a bug bounty program (likely via Immunefi) to involve external white-hats. On a process level, they use formal verification and automated tests from Maker's codebase to ensure reliability.
- Blockchain Interoperability: The mention of bridging USDS to Spark's platform suggests usage of standard bridging tech (maybe a specialized module or third-party bridges). If bridging is used, those technologies (could be governed by multi-sigs or cross-chain bridges) are part of the stack as well.

To summarize, the technology used by the Sky Protocol is essentially the MakerDAO DeFi technology stack implemented on Ethereum: highly secure smart contracts for a stablecoin and governance, web3 front-ends for user interaction, oracle networks for price input, and

Ethereum's robust blockchain infrastructure for consensus and execution. All contracts and code have been made open-source (the documentation indicates CC0 license for the docs and presumably code), allowing transparency and community auditing.

H.4 Consensus Mechanism

Sky Protocol itself does not have its own consensus mechanism; it relies on Ethereum's Proof-of-Stake (PoS) consensus for all transactions and state changes. Ethereum's PoS (implemented via the Beacon Chain and the Ethereum Mainnet merge in September 2022) works as follows: validators stake ETH (currently 32 ETH per validator) and are randomly selected to propose and attest to blocks. Blocks are produced roughly every 12 seconds. Finality is achieved through a system of checkpoints and supermajority voting by validators (with Ethereum aiming for finality within ~2 epochs, i.e., ~13 minutes). Under PoS, if validators act maliciously (e.g., double-sign conflicting blocks), they can be slashed (losing a portion of their staked ETH). This economic penalty and reward system secures the network. There are typically thousands of validators (over 700k validators in 2025), making the network decentralized. This consensus mechanism differs from Proof-of-Work (which Ethereum used to use) in that it doesn't require intense computational work, vastly reducing energy consumption by ~99.99% [OBJ]. It also has different security assumptions (assuming >2/3 of staked ETH is honest, etc.). Ethereum's PoS has been running since 2022 without major issues and has successfully finalized blocks continuously.

H.5 Incentive Mechanisms and Applicable Fees

The Sky Protocol incorporates multiple incentive mechanisms to align the interests of users, governance participants, and network security.

- Ethereum Network Fees: All transactions involving SKY or Sky Protocol features require gas fees in ETH, following Ethereum's EIP-1559 model. Users pay a base fee (burned) and a tip to validators. These fees do not directly affect SKY but ensure network stability and validator incentives.

Protocol Incentives:

- USDS Holders: Users holding USDS stablecoin can earn either the Sky Savings Rate (SSR, interest paid in USDS) or Sky Token Rewards (STR, distributed in SKY). An allocation of up to 600M SKY annually creates a strong incentive to adopt USDS.
- Borrowers: Users who mint USDS by locking collateral pay stability fees. These fees contribute to system surplus, which can be used to buy and burn SKY, benefiting token holders. Borrowers also face liquidation penalties if collateral ratios fall, incentivizing prudent risk management.
- Auction Participants: Keepers are incentivized by profit opportunities during surplus, debt, or collateral auctions, ensuring efficient clearing of debt and liquidations.
- Governance: SKY holders can lock tokens in governance activation modules to earn additional rewards, encouraging long-term participation in decision-making.

Applicable User Fees:

- Protocol Fees: Borrowers pay stability fees (set by governance), while USDS savers earn interest via the SSR. Liquidation penalties typically range between 10–15% of collateral in liquidation events.
- Gas and Trading Costs: All on-chain activity requires Ethereum gas fees. In addition, centralized and decentralized exchanges apply trading or withdrawal fees when buying or moving SKY.

- No Pre-Mine & Security: The issuer (Skybase) did not conduct a pre-mine, aligning its incentives with token adoption and protocol success. The project also runs a bug bounty program (e.g., via Immunefi), rewarding security researchers for identifying vulnerabilities.

Summary:

The incentive and fee structure encourages USDS adoption (via rewards and interest), ensures borrowers maintain sufficient collateral (via stability and liquidation fees), motivates market participants to engage in auctions, and rewards governance participation. At the same time, Ethereum validators remain incentivized through gas fees and ETH staking rewards, while the security community benefits from bounty programs. All fees and reward levels are determined by governance and may be adjusted over time to balance inflation, stability, and growth.

H.6 Use of Distributed Ledger Technology

True

H.7 DLT Functionality Description

On Ethereum, the Sky Protocol's contracts and tokens utilize several technical functionalities:

- Smart Contract Logic: The system is a collection of interoperable smart contracts (the Dai Stablecoin System contracts renamed for Sky). The core Vault engine (Vat) keeps track of who has deposited what collateral and drawn how much USDS (internal bookkeeping of debt). The system is functionally similar to a banking engine on-chain, but instead of a central database, it's Ethereum maintaining state. The functionality includes: minting USDS when new debt is created (increasing total stablecoin supply), destroying USDS when debt is repaid, swapping collateral and debt in auctions, etc. The contracts ensure that at all times, for each user's vault, collateral_value >= debt_value * collateralization_ratio or else trigger liquidation. This is enforced by the contract's functions (they won't allow an action that violates collateralization requirement).
- Token Contracts: USDS token contract (likely an upgradeable ERC-20 as per UUPS pattern) handles the stablecoin itself – it's probably integrated with the core (Maker's DAI was an internal accounting in Vat that mirrored an ERC-20 called DAI via a join adapter). The SKY token contract (non-upgradeable ERC-20 with permit) handles governance token. These allow basic ledger operations: balances and transfers, and are recognized by the Ethereum ecosystem (so one can hold USDS or SKY in any Ethereum wallet).
- Oracle Feeds: Off-chain or semi-off-chain oracles continuously provide price updates for each type of collateral (e.g., ETH/USD price). These updates (signed by oracles, fed through a medianizer and OSM contract) arrive on-chain to update price values in the protocol at a fixed interval. The protocol uses those for determining vault health. Oracles are designed to be redundant (multiple feeders) and have a delay (OSM) to mitigate sudden manipulation. The on-chain functionality is that the OSM contract stores a price and after a delay passes it to the system (accessible by the contracts). This is how external data is "blockchain-ized."
- Governance Mechanism: The governance contract (Chief) gives SKY token holders functionality to:
- Lock their SKY into the contract to get voting power (or possibly just sign messages if using off-chain snapshot + on-chain execution approach, but Maker uses on-chain locking).

- Submit an executive proposal (a “spell” contract address) to be considered.
- Vote for proposals by pointing their locked tokens to one of the spell addresses.
- The Chief tallies votes, and when a proposal exceeds the threshold (e.g., has more votes than the current active proposal), it can be scheduled in the Timelock/Pause contract.
- After the timelock delay, the proposal’s actions (like changing a parameter or deploying a new contract for a module) can be executed automatically by calling an exec function, which then authorizes changes in the system (like flipping a new collateral on, or adjusting a rate).

The governance contract also has emergency features: e.g., Maker’s governance has an Emergency Shutdown that could be triggered by a threshold of MKR (like 50k MKR) locking in a contract called End to halt the system. In Sky, a similar emergency shutdown can be triggered if needed, which stops new USDS generation and allows collateral claims. That functionality is crucial for last-resort risk management and is encoded in the contracts (the End contract).

So governance functionality essentially replicates what a corporate board or committee would do, but enforced by Ethereum: if enough token holders agree, the system changes in predefined ways, all transparently recorded.

- Inter-contract Interactions: The system is composed of multiple contracts that call each other (for example, when a user draws USDS, the vault contract calls Vat to ensure enough collateral, then calls the daiJoin to mint actual token). These flows are carefully orchestrated in code.
- Upgradeability: The architecture allows some parts to be upgradeable. For instance, adding a new collateral type is done by deploying a new collateral adapter and configuring it via governance. If they wanted to upgrade the USDS token contract, they made it UUPS proxy so governance can point it to a new implementation (if needed to patch something or add features). The SKY token likely is fixed and not upgradeable (since it’s simple and audited).
- Security Mechanisms: The Pause contract means any governance action has a delay, giving time for scrutiny. Also, an Emergency Shutdown (if triggered) will break the normal functionality: it freezes the system and allows users to retrieve a proportional share of collateral for each stablecoin they hold (or vice versa).
- Integration with L2 or other DLTs: At launch, mainnet Ethereum does all heavy-lifting. In future, if bridging, those interactions might involve locking USDS on Ethereum and minting a representation on another chain (via a bridge contract).

In simpler terms, the DLT functionality is that smart contracts serve as the autonomous logic for a bank-like system (loans and savings) and a central bank-like system (minting and burning currency), with a token-based voting system controlling it, all of which is stored and executed on Ethereum. This ensures transparency (one can inspect contract code and state) and predictability (rules are pre-defined and apply equally to all), fulfilling the intended decentralized nature of the project.

H.8 Audit

True

H.9 Audit Outcome

The outcomes of the security audits and reviews have been positive, with no critical unresolved issues reported. Key results:

Auditors found the code to be of high quality and identified only a few low/medium severity issues, which were subsequently fixed or acknowledged with mitigation plans. For example, in the Endgame deployment scripts audit by ChainSecurity, they noted a “high level of security” and no frontrunning issues found. This indicates that nothing fundamental was wrong and only routine recommendations were made.

The extensive audits confirmed that Sky’s core protocol contracts are secure and function as intended, particularly focusing on mathematical correctness (no overflow due to use of Solidity’s safe math or modern compiler checks), access control (ensuring only governance or authorized modules can perform certain sensitive actions), and resilience to common DeFi attacks (re-entrancy, oracle manipulation to the extent possible, etc.). Maker’s long operational history without contract failures supports the audit conclusions that the design is robust.

The Sherlock audit contest ended without any critical bugs reported publicly; given the large bounty, we can infer that if any critical issues were found, they were patched immediately. No news of a delay in launch or major patch suggests the contest primarily resulted in minor findings. Sherlock later confirmed (through updates) that multiple teams looked at it and MakerDAO issued fixes for the handful of issues discovered (none of which were catastrophic).

https://developers.sky.money/security/security-measures/overview/

Specifically, an earlier vulnerability in Maker’s governance (the DSChief flaw that allowed possible vote withdrawal attack) was already fixed in prior versions. The audits of Endgame would have double-checked such logic again given increased token supply (which they did; no new governance vulnerability was introduced).

https://www.chainsecurity.com/security-audit/sky-chief-smart-contracts

I. PART I – INFORMATION ON RISKS

I.1 Offer-Related Risks

Since there is no new public offering of SKY, “offer-related” risks translate to risks in buying or trading SKY on the market. SKY’s price is determined entirely by market forces and can be extremely volatile. Investors who purchase SKY could incur significant losses if the market price drops – there is no guaranteed value (the token could theoretically lose most or all of its value). Liquidity risk is also present: is traded on decentralized exchanges and centralized as well,, the trading volumes might be variable. In times of stress or low demand, it may be hard to find a buyer or seller at a desired price, potentially causing slippage or inability to exit a position. Withdrawal risk: While not an “offer” in the prospectus sense, when trading on an exchange, there is a slight risk if the exchange faces technical issues or hacks that could delay or impede withdrawals.No withdrawal rights: Investors do not have the statutory right to withdraw their purchase as they would in some regulated securities offerings – once you buy SKY, you cannot return it for a refund simply because you changed your mind, given this is a secondary market token trade (this aligns with compliance statement 05 which is not applicable because there’s no formal offer with a cooling-off period). Pricing risk: There is no fixed offer price – you might pay a high price due to hype and the price could subsequently crash.

I.2 Issuer-Related Risks

Decentralization and Governance Risk: The Sky token issuer is effectively the Sky DAO (decentralized community) and Skybase International (for interface purposes). This distributed structure means there is no single central company guaranteeing performance or stability. If community governance fails—for example, through voter apathy (insufficient participation to address issues) or a malicious takeover (a large holder accumulates enough voting power to

push harmful changes)—the protocol could be exposed to significant risks. Governance attacks are possible, though mitigated by broad token distribution and security mechanisms such as time delays.

Regulatory Risk: Skybase International, as a legal entity, could face regulatory or legal challenges if authorities in major jurisdictions (e.g., the US or EU) were to view aspects of the Sky Protocol as non-compliant. Although the entity is incorporated in the Cayman Islands, enforcement actions in key markets could target core contributors or supporting infrastructure, potentially undermining accessibility and confidence in the project.

Issuer Insolvency or Dissolution: Skybase International does not custody funds or issue tokens directly, so its financial standing does not affect token holders in the same way as a traditional issuer. However, if Skybase ceased operations, the official user interface could be lost, forcing the community to rely on alternative or community-maintained front ends. This would cause disruption, though not necessarily undermine the underlying protocol.

Security Risk at Interface Level: If infrastructure operated by Skybase (such as websites or API services) were compromised, users could face phishing attempts or manipulated transactions. While final execution requires user signatures on-chain, a compromised interface could still mislead or expose users.

Legal Classification Risk: If regulators were to classify SKY as a security or subject it to restrictive regulations, exchanges or service providers could be compelled to delist or block access to the token in certain jurisdictions. While the MiCA framework provides a degree of regulatory clarity within the EU, other jurisdictions may interpret classification differently, potentially affecting liquidity and accessibility.

Operational Governance Risk: Because governance is decentralized, there is a possibility of poor decision-making—for instance, setting an excessively high savings rate, mismanaging stability parameters, or onboarding risky collateral. Such decisions could destabilize the system. While the governance process includes discussion and review, risks of human error or insufficient expertise cannot be fully eliminated.

Structural and Liability Risk: Skybase International is part of a broader structure associated with key contributors, which may concentrate influence. If there were conflicts, legal issues, or controversial strategic decisions within this structure, it could affect the project's stability. Furthermore, because of the decentralized nature of the system, there is no single accountable entity that guarantees compensation in the event of failure (e.g., a hack or collapse of USDS). Users must therefore accept that issuer-related liability is limited compared to a centralized system.

Summary: Overall, issuer-related risks stem from the decentralized governance framework, evolving regulatory landscape, reliance on community and key contributors, and the absence of a traditional, accountable corporate structure. While these features enable openness and resilience, they also introduce unpredictability in how risks and crises may be addressed

I.3 Crypto-Assets-Related Risks

Volatility and Market Risk:Like many crypto-assets, SKY's price is subject to significant fluctuations and may experience double-digit percentage swings within a single day. There is no intrinsic price floor, unlike stablecoins or asset-backed tokens, meaning holders face the risk of substantial value loss due to market volatility.

Token Inflation and Dilution Risk:SKY has a built-in annual inflation of approximately 2.8% (around 600 million tokens issued on a base of ~21.5 billion). This inflation may place

downward pressure on the token's price if demand does not grow proportionally. In addition, governance mechanisms allow for increased reward emissions or emergency minting (e.g., through debt auctions), which could dilute existing holders and negatively affect value.

Lack of Dividends or Cash Flows:Holding SKY does not provide rights to dividends, guaranteed profits, or direct revenue sharing. Its value is speculative, linked to the protocol's long-term adoption, governance role, and the expectation of token burns funded by system surpluses. If usage of the protocol declines, the burn mechanism weakens, reducing potential support for SKY's market value.

Dependence on Stablecoin Success:The SKY token's utility and value are closely tied to the success of the USDS stablecoin. Should USDS fail to maintain its peg, lose user trust, or be outcompeted by rival stablecoins, demand for USDS and associated protocol revenues could drop, indirectly undermining SKY's value.

Smart Contract and Oracle Risks:While audited, smart contracts always carry residual risks of undiscovered vulnerabilities. A critical bug could enable exploits that destabilize USDS or affect token issuance. Similarly, failures or manipulations of the oracle system could lead to incorrect liquidations or under-collateralization, potentially forcing the minting of new SKY to cover losses, which would dilute holders.

Competition Risk:The stablecoin and decentralized finance sectors are highly competitive. If alternative protocols offer more attractive incentives, stronger decentralization, or superior risk management, Sky Protocol may lose market share, reducing adoption of USDS and, in turn, diminishing value accrual to SKY.

I.4 Project Implementation-Related Risks

Market Risk: As already touched, SKY's price is highly volatile. Being a mid-cap crypto (market cap ~$0.45B) [obj] [obj], it is subject to general crypto market swings. If the crypto market enters a bear phase, SKY could lose substantial value regardless of its individual progress. Conversely, hype cycles might inflate it beyond sustainable value. Holders face the risk of large losses if market sentiment turns or if macroeconomic factors hit crypto (like interest rate changes, regulatory crackdowns, etc.). There is also liquidity risk – while SKY is listed on several exchanges, extreme events (exchange hacks, regulatory bans) could slice liquidity, making it hard to trade without huge slippage. If many holders rush to exit at once (panic selling), the lack of buy orders could lead to a price collapse.

Technology and Network Security Risk: Although SKY has been audited and uses robust consensus, no system is infallible. Potential technical risks include:

Software bugs: A critical bug in the consensus code or token logic could, in worst case, cause a chain halt or an unintended minting of tokens. For instance, if a bug allowed an attacker to bypass signature checks or exploit the DAG ordering to double-spend, it could undermine trust. The Halborn audit was one security measure, but that covered specific contracts; the core consensus might not have had a third-party audit disclosed. If a bug were exploited (say someone finds a way to create tokens out of thin air or prevent others' transactions), SKY's value would plummet, and the network could require emergency patches or even a hard fork to fix.

Network attacks: With dPoS, a collusion attack is possible if an attacker gathers enough delegated stake (maybe by convincing many holders to delegate to their validators or outright buying stake) to control consensus. If an attacker managed, say, >67% of stake, they could alter transaction ordering, execute double-spends, or censor transactions. Such control is very expensive to gain (they'd have to purchase a massive portion of supply at skyrocketing prices),

so it's more a theoretical risk. More plausible is a partial attack – e.g., controlling 34-50% might disrupt consensus (make it difficult to reach quorum, stalling the network).

Centralization & Governance risk: Because SKY is new, the initial distribution of stake might not be very decentralized. It's possible a few entities (the team, top investors) collectively hold a majority of stake, meaning the network is effectively centralized in their hands initially. This is a risk if those entities act maliciously or get compromised. Also, if SKY, Inc. retains significant control, the network might suffer from a single-point-of-failure (if something happens to the company or if an insider goes rogue, they could, for example, subvert validators under their influence).

Smart contract risks on SKY: If users create tokens or use atomic swaps on SKY's built-in DEX, there could be logic edge cases. The complexity of features like ACLs (permissions on tokens) might result in unforeseen loopholes (though these would more likely affect those tokens than SKY itself). But imagine if a malicious token created on SKY exploited a client vulnerability when viewed in wallets – those indirect risks exist as the platform grows.

Quantum Computing (future risk): As with all modern blockchains, SKY's cryptography (ECDSA/EdDSA) could be broken by a sufficiently powerful quantum computer, potentially in a decade or more unless networks upgrade to quantum-resistant algorithms. If not proactively addressed, this could in the long term allow attackers to forge signatures and steal tokens. This risk is not immediate, but it's noted in forward-looking risk assessments [illegible]. The mitigation would be to upgrade cryptography in time.

Custodial Risks: Many SKY holders might keep tokens on exchanges or custodial wallets for convenience. Those introduce counterparty risk – if an exchange holding SKY is hacked or insolvent, users could lose their tokens. For instance, if someone leaves SKY on an exchange that later gets breached, the attacker could steal the deposit (just as with any crypto). Self-custody has its own risk: if you lose your private key or recovery phrase, your SKY is lost permanently. There's no password reset in blockchain. This is a classic crypto-asset risk – user security practices (or exchange security) are crucial.

I.5 Technology-Related Risks

Execution Risk: The Sky Protocol's ambitious roadmap, including features such as Activation, Stars (subDAOs), and cross-chain integrations, may face delays or technical difficulties. If initiatives like Regular Activation or new Stars launch late or malfunction, the expected benefits in user adoption and revenue may not materialize.

Technical Integration Risk: Launching new Stars or bridging to other blockchains introduces complexity and possible vulnerabilities. A bug in a Star's contracts or a compromised bridge could undermine the protocol, while reliance on Ethereum exposes users to high gas costs. Layer-2 solutions may help but bring additional risks such as liquidity fragmentation and contract vulnerabilities.

Scaling and Performance Risk: Rising Ethereum gas fees or network congestion could make the protocol uneconomical for smaller users. While Layer-2 adoption is planned, this transition carries its own risks related to security and integration.

Subproject (Star) Risk: Each Star operates as a semi-independent initiative. If one underperforms, suffers losses, or faces an exploit—such as bad debt in a lending Star—it could reduce confidence in the broader Sky ecosystem and potentially require support from the main protocol.

Community Coordination Risk: Decentralized governance may lead to slow or indecisive action. In moments requiring rapid parameter adjustments (e.g., during market stress), delays in decision-making could worsen outcomes.

Regulatory Implementation Risk: Evolving compliance requirements, such as MiCA or other global rules, may necessitate additional measures like KYC or whitelisting for Stars linked to real-world assets, potentially complicating or delaying rollouts.

Key Personnel and Development Risk: Although governance is decentralized, the protocol relies on core developers for new features and upgrades. The loss of key contributors or coding errors during upgrades could delay implementation or introduce vulnerabilities.

Economic Design and Testing Risk: Novel mechanisms such as continuous SKY issuance and sealed Activation may have unintended effects, including persistent sell pressure or reduced participation due to game-theory dynamics. Adjustments may be needed, but outcomes are uncertain until tested in practice.

Adoption Risk: Even if features are successfully delivered, market adoption is not guaranteed. Competing protocols or adverse market conditions could limit uptake, reducing revenues and protocol sustainability.

Interdependency Risk: Many components of the roadmap are interconnected. If one is delayed or underperforms, it may hinder the effectiveness or profitability of others, weakening the overall ecosystem.

I.6 Mitigation Measures

The Sky project employs several measures to mitigate the above risks:

Extensive Security Audits & Bounties: As noted, the contracts have undergone multiple independent audits and a $1M+ public audit contest. This greatly reduces the likelihood of undiscovered critical bugs. Additionally, the ongoing Immunefi bug bounty program incentivizes continuous scrutiny by white-hat hackers. These measures address technology-related risks by catching issues before they can be exploited.

Robust Protocol Design (Learnings from MakerDAO): The system's core design has proven resilient through major market events. For example, after the March 2020 incident, MakerDAO introduced circuit breakers like the auction throughput limit and improved keeper infrastructure to prevent a recurrence. Sky benefits from those improvements. The protocol is over-collateralized by design, which mitigates the risk of stablecoin insolvency in normal conditions (users must post more collateral than the value of USDS they generate). The Emergency Shutdown mechanism exists as an ultimate safeguard: if governance perceives an irrecoverable issue (like a severe hack or a regulatory threat to seize assets), it can trigger shutdown so that USDS holders can reclaim collateral and SKY holders settle their governance role. This prevents indefinite uncertainty – it's a mitigation to protect value insofar as people can at least partially recover assets rather than a total collapse.

Decentralized Governance Safeguards: Governance processes have built-in checks: a timelock (Pause) on executive changes means if a malicious proposal were passed, there is a window for the community to react (possibly initiate Emergency Shutdown or coordinate to reverse it). Moreover, governance security modules like requirement of a minimum quorum or delay help avoid rushed or low-participation decisions. The community has also formed risk and governance committees (Core Units) that analyze proposals (in Maker, e.g., Risk Core Unit, etc.). Sky presumably continues with this, meaning changes are usually vetted by experts, mitigating risk of poor decisions or parameter mis-sets.

Oracles and Auction Improvements: MakerDAO (and thus Sky) implemented an Oracle Security Module (time delay) to mitigate oracle risk – giving 1-hour reaction time to bad feeds. It also uses a median of many feeders to avoid single-source manipulation. On auctions, Maker added the “circuit breaker” that if keeper bids aren’t present (like 0 bid), a governance can pause auctions (though this is manual, not automatic). Also, after 2020, Maker increased the number of keeper bots and introduced Defensive Auctions (setting minimum bids). The broad involvement of professional market makers as keepers nowadays (some Keeper DAOs) mitigates the risk of auction failures due to high gas or volatility. There’s a more robust keeper ecosystem ready to step in, which is an informal but real mitigation (observed e.g. in May 2021 crash – auctions ran smoothly).

Layer-2 Strategy: To mitigate high gas costs and scaling issues, the project can utilize Layer-2 networks (like Spark deploying on Layer-2 for cheaper stablecoin generation). Indeed, Spark’s design involves using a fork of Aave on Ethereum for now, but bridging USDS indicates a path to multi-chain presence. If Ethereum L1 is congested, users might do operations on L2 where it’s cheaper, preserving user experience. Maker had plans with StarkNet, etc. Sky will likely adopt similar moves.

Risk Parameters and Monitoring: The protocol employs conservative risk parameters for collateral (like collateralization ratios, debt ceilings) determined by risk analysis. The Risk Core Unit monitors market conditions and can propose adjustments (e.g., lower debt ceilings if volatility increases). This proactive risk management mitigates the chance of catastrophic shortfalls. The community also monitors metrics like system collateralization, and if something like a particular collateral type becomes too risky, they can quickly disable new borrowing (via governance) or increase fees to discourage use. The adaptability of risk parameters is a mitigation measure.

J. PART J - INFORMATION ON THE SUSTAINABILITY INDICATORS IN RELATION TO ADVERSE IMPACT ON THE CLIMATE AND OTHER ENVIRONMENT-RELATED ADVERSE IMPACTS

Adverse impacts on climate and other environment-related adverse impacts.

J.1 Information on principal adverse impacts on the climate and other environment-related adverse impacts of the consensus mechanism

The Sky Protocol operates on the Ethereum blockchain, which since its transition to proof-of-stake (PoS) no longer relies on energy-intensive mining. PoS models are generally considered less resource-demanding than proof-of-work systems, as they depend on validators staking assets rather than expending large amounts of computational power. That said, this does not imply the absence of environmental impact. The actual energy use depends on factors such as the number of validators, the type of hardware deployed, and the geographic distribution of nodes. SKY itself does not operate its own consensus network but is secured through Ethereum’s existing validator infrastructure. As such, any environmental footprint associated with SKY is tied to Ethereum’s overall PoS operations, which may still vary depending on adoption levels, validator practices, and network activity.

General information	
S.1 Name *Name reported in field A.1*	LCX

S.2 Relevant legal entity identifier Identifier referred to in field A.2	529900SN07Z6RTX8R418
S.3 Name of the crypto-asset Name of the crypto-asset, as reported in field D.2	SKY
S.4 Consensus Mechanism The consensus mechanism, as reported in field H.4	The crypto-asset's Proof-of-Stake (PoS) consensus mechanism, introduced with The Merge in 2022, replaces mining with validator staking. Validators must stake at least 32 ETH every block a validator is randomly chosen to propose the next block. Once proposed the other validators verify the blocks integrity. The network operates on a slot and epoch system, where a new block is proposed every 12 seconds, and finalization occurs after two epochs (~12.8 minutes) using Casper-FFG. The Beacon Chain coordinates validators, while the fork-choice rule (LMD-GHOST) ensures the chain follows the heaviest accumulated validator votes. Validators earn rewards for proposing and verifying blocks, but face slashing for malicious behavior or inactivity. PoS aims to improve energy efficiency, security, and scalability, with future upgrades like Proto-Danksharding enhancing transaction efficiency.
S.5 Incentive Mechanisms and Applicable Fees Incentive mechanisms to secure transactions and any fees applicable, as reported in field H.5	The crypto-asset's PoS system secures transactions through validator incentives and economic penalties. Validators stake at least 32 ETH and earn rewards for proposing blocks, attesting to valid ones, and participating in sync committees. Rewards are paid in newly issued ETH and transaction fees. Under EIP-1559, transaction fees consist of a base fee, which is burned to reduce supply, and an optional priority fee (tip) paid to validators. Validators face slashing if they act maliciously and incur penalties for inactivity. This system aims to increase security by aligning incentives while making the crypto-asset's fee structure more predictable and deflationary during high network activity.
S.6 Beginning of the period to which the disclosure relates	2024-05-18
S.7 End of the period to which the disclosure relates	2025-05-18
Mandatory key indicator on energy consumption	

S.8 Energy consumption Total amount of energy used for the validation of transactions and the maintenance of the integrity of the distributed ledger of transactions, expressed per calendar year	588.50178 kWh per year
Sources and methodologies	
S.9 Energy consumption sources and Methodologies Sources and methodologies used in relation to the information reported in field S.8	For the calculation of energy consumptions, the so called "bottom-up" approach is being used. The nodes are considered to be the central factor for the energy consumption of the network. These assumptions are made on the basis of empirical findings through the use of public information sites, open-source crawlers and crawlers developed in-house. The main determinants for estimating the hardware used within the network are the requirements for operating the client software. The energy consumption of the hardware devices was measured in certified test laboratories. When calculating the energy consumption, we used - if available - the Functionally Fungible Group Digital Token Identifier (FFG DTI) to determine all implementations of the asset of question in scope and we update the mappings regularly, based on data of the Digital Token Identifier Foundation.

J.2 Supplementary information on principal adverse impacts on the climate and other environment-related adverse impacts of the consensus mechanism

Supplementary key indicators on energy and GHG emissions	
S.10 Renewable energy consumption Share of energy used generated from renewable sources, expressed as a percentage of the total amount of energy used per calendar year, for the validation of transactions and the maintenance of the integrity of the distributed ledger of transactions.	14.770208242%
S.11 Energy intensity Average amount of energy used per validated transaction	0.00000 kWh
S.12 Scope 1 DLT GHG emissions – Controlled Scope 1 GHG emissions per calendar year for the validation of transactions and the maintenance of the integrity of the distributed ledger of transactions	0.00 tCO2e per year

S.13 Scope 2 DLT GHG emissions – Purchased Scope 2 GHG emissions, expressed in tCO2e per calendar year for the validation of transactions and the maintenance of the integrity of the distributed ledger of transactions	1873.14310 tCO2e/a
S.14 GHG intensity Average GHG emissions (scope 1 and scope 2) per validated transaction	0.00000 kgCO2e per transaction
Sources and methodologies	
S.15 Key energy sources and methodologies Sources and methodologies used in relation to the information reported in fields S.10 and S.11	To determine the proportion of renewable energy usage, the locations of the nodes are to be determined using public information sites, open-source crawlers and crawlers developed in-house. If no information is available on the geographic distribution of the nodes, reference networks are used which are comparable in terms of their incentivization structure and consensus mechanism. This geo-information is merged with public information from the European Environment Agency (EEA) and thus determined.
S.16 Key GHG sources and methodologies Sources and methodologies used in relation to the information reported in fields S.12, S.13 and S.14	To determine the GHG Emissions, the locations of the nodes are to be determined using public information sites, open-source crawlers and crawlers developed in-house. If no information is available on the geographic distribution of the nodes, reference networks are used which are comparable in terms of their incentivization structure and consensus mechanism. This geo-information is merged with public information from the European Environment Agency (EEA) and thus determined.