TOWNS

WHITE PAPER

In accordance with Title II of Regulation (EU) 2023/1114 (MiCAR)

00 TABLE OF CONTENT

01 DATE OF NOTIFICATION

15 July 2025

02 STATEMENT IN ACCORDANCE WITH ARTICLE 6(3) OF REGULATION (EU) 2023/1114

This crypto-asset white paper has not been approved by any competent authority in any Member State of the European Union. The token offeror, which is also the person seeking admission to trading of the crypto-asset, is solely responsible for the content of this crypto-asset white paper.

03 COMPLIANCE STATEMENT IN ACCORDANCE WITH ARTICLE 6(6) OF REGULATION (EU) 2023/1114

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 STATEMENT IN ACCORDANCE WITH ARTICLE 6(5), POINTS (A), (B), (C), OF REGULATION (EU) 2023/1114

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 STATEMENT IN ACCORDANCE WITH ARTICLE 6(5), POINT (D), OF REGULATION (EU) 2023/1114

Not applicable

06 STATEMENT IN ACCORDANCE WITH ARTICLE 6(5), POINTS (E) AND (F), OF REGULATION (EU) 2023/1114

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 IN ACCORDANCE WITH ARTICLE 6(7), SECOND SUBPARAGRAPH, OF REGULATION (EU) 2023/1114

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

The Towns Token (TOWNS) is a native token that grants its holders access to specific functionalities within the Towns Protocol. These rights are designed to support decentralized participation, protocol-level governance,and broader engagement within the ecosystem.

- **Rights of the Purchaser - Holders of TOWNS are entitled to the following rights:**
  - Staking for Network Security: Validators may stake TOWNS to contribute to secure the protocol's proof-of-stake chain.
  - Delegated Staking: Token holders can delegate their tokens to approved node operators, participating indirectly in network operations.
  - Governance Participation: TOWNS holders can vote on proposals related to protocol upgrades, economic parameters, and governance changes via the Towns DAO.
  - Token Delegation: Assigning tokens to specific Spaces enables access to advanced features such as increased storage capacity, customizable access rules, and participation in restricted activities.
  - The TOWNS token **does not grant any right to receive profits, capital reimbursement, or any other financial return. It does not represent a share, debt instrument, or claim against the issuer**.
- **Obligations of the Purchaser** - Holding TOWNS does not, in itself, impose any specific legal or financial obligations on the purchaser. However, participation in staking, governance, or protocol-level interactions may be subject to the Towns Protocol's Terms of Service and smart contract-based rules. Users are responsible for complying with such applicable terms when interacting with the protocol.
- **Procedure and Conditions for the Exercise of Rights** - Rights associated with TOWNS can be exercised through compatible Web3 interfaces and wallets. For example:
  - Governance voting is conducted on-chain through proposals submitted and voted on via the DAO interface.
  - Staking and delegation are performed using smart contracts deployed on the Base Mainnet, accessed through official or third-party clients.
- **Conditions for Modifying Rights and Obligations** - The rights and protocol functionalities associated with TOWNS may evolve over time. Modifications are subject to approval by the Towns DAO through a transparent on-chain voting process. Token holders retain the ability to influence such decisions through their governance participation. The TOWNS is generally transferable, except during certain smart contract-defined operations.

09 INFORMATION ABOUT THE QUALITY AND QUANTITY OF GOODS OR SERVICES TO WHICH THE UTILITY TOKENS GIVE ACCESS AND RESTRICTIONS ON THE TRANSFERABILITY.

Not applicable

10 KEY INFORMATION ABOUT THE OFFER TO THE PUBLIC OR ADMISSION TO TRADING

Total offer amount	The total number of the tokens made available to the public is indicated in the following field; however, the total value of the offer cannot be determined as no issue price has been set (for further details, please refer to Section E.8).
Total number of tokens to be offered to the public/admitted to trading	265,557,200 TOWNS tokens are allocated for public release.
Subscription period	Until the token supply is over (there is no open subscription model)
Minimum and maximum subscription amount	No subscription limit, uncapped. There is no minimum or maximum subscription amount defined by the issuer. Tokens will be made available through public exchanges and intermediaries, and participation limits, if any, will be determined by those platforms.
Issue price	Not available
Subscription fees (if any)	We do not apply subscription fees, although intermediaries re-selling the tokens (e.g. crypto-to-crypto and crypto-to-funds exchange service providers, trading platform, or other intermediaries) may do so.
Target holders of tokens	Uncapped and not it cannot be determined at this time; it will depend on the token's success.
Description of offer phases	We consider this launch to constitute a public offering, as the token will not be merely admitted to trading (which, under the strict terminology of MiCAR, refers specifically to admission on a trading platform), but will also be made available through additional channels. The following processes will take place in parallel: ● The token will be made available to entities licensed under MiCAR to operate as crypto-asset exchanges (for both crypto-to-crypto and crypto-to-fiat transactions). These entities will then exchange the token with users, setting their own conversion prices; ● In addition, the token will be made available to market makers and liquidity providers, who will subsequently introduce the token onto trading platforms; ● **River Eridanus Association** is seeking admission to trading on Bitvavo (details in the following pages). In all such cases, **there is no direct sale of tokens by River Eridanus Association**. Instead, the token is made available to the aforementioned parties through an alternative mechanism based on the **temporary lending** of tokens. This model is designed to ensure initial liquidity and

	support the development of a secondary market, without requiring upfront costs from the aforementioned parties. River Eridanus Association lends a quantity of tokens to these parties under contractual arrangements that are not intended to transfer ownership or constitute a sale, but rather to enable temporary use for liquidity purposes. These entities do not purchase the tokens, but receive them for a defined period, with the obligation to either return them upon expiry or acquire them at a future-determined value (e.g., based on an average market price). Such parties use the loaned tokens to create trading pairs with other crypto-assets and to provide initial liquidity, thereby facilitating market-based price discovery. The purpose of this model is to ensure sufficient liquidity during the early stages of the token's lifecycle, to mitigate potential price distortions caused by illiquidity, and to allow the token's value to emerge freely through supply and demand dynamics among end users. From our perspective, this constitutes a hybrid model: there is a public-facing element consistent with a token offering, but the token is not introduced to the market solely via "admission to trading" as defined under MiCAR. For these reasons, **no issuance price is defined in the strict sense**, and the price will be **entirely determined by the market**. Please also note that **no placement agreements are in place**. As stated multiple times in this document, the token offeror has **not entered into any agreement with CASPs providing the service of placing crypto-assets** as narrowly defined under Article 3(1)(22) of MiCAR. Accordingly, the token **will not be sold to purchasers via placement**, at least not on day one. Should this approach change in the future, the white paper will be updated accordingly.
CASP responsible for placing the token (if any)	The token offeror has not entered into any agreement with CASPs providing the service of placing of crypto-assets as defined narrowly under Article 3(1)(22). That said, the token will be made available to CASPs holding licenses for crypto-asset-to-crypto-asset exchanges and/or crypto-asset-to-funds exchanges (e.g. Coinbase), as well as to liquidity providers and market makers, for the purpose of market availability and subsequent admission to trading platforms.
Form of placement	As said above, the token offeror has not entered into any agreement with CASPs providing the service of placing of crypto-assets as defined narrowly under Article 3(1)(22). That said, the token will be made available to CASPs holding licenses for crypto-asset-to-crypto-asset exchanges

	and/or crypto-asset-to-funds exchanges (e.g. Coinbase), as well as to liquidity providers and market makers, for the purpose of market availability and subsequent admission to trading platforms.
Admission to trading	The token offeror is seeking admission to trading. In particular, admission is being sought on Bitvavo, which is duly authorized as a CASP operating a trading platform within the EU, starting from August 13, or, at the latest, in the following days.

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

A.1 Name

RIVER ERIDANUS ASSOCIATION

A.2 Legal Form

Swiss Association (ISO 20275 H781)

A.3 Registered Address

c/o MJP Partners AG, Bahnhofstrasse 20, 6300 Zug, Switzerland

A.4 Head Office

Baarerstrasse 75, 6300 Zug, Switzerland

A.5 Registration Date

2023/12/21

A.6 Legal Entity Identifier

Not Applicable

A.7 Another Identifier Required Pursuant to Applicable National Law

The River Eridanus Association is registered with the commercial register in the the city of Zug, Switzerland, under number CHE-168.071.893

A.8 Contact Telephone Number

+41417111366

A.9 E-mail Address

hello@towns.com

A.10 Response Time (Days)

5 days

A.11 Parent Company

Not applicable

A.12 Members of the Management Body

Full Name	Business Address	Function
(Please email board@river.build for information)	c/o MJP Partners AG, Bahnhofstrasse 20, 6300 Zug, Switzerland	President of the Board

(Please email board@river.build for information)	c/o MJP Partners AG, Bahnhofstrasse 20, 6300 Zug, Switzerland	Board Member

A.13 Business Activity

The River Eridanus Association operates as a **non-profit organization** under Swiss Civil Code (Art. 60 et seq.) dedicated to **governing, maintaining, and advancing the Towns Protocol**. It focuses on promoting decentralized, censorship-resistant, and secure communication infrastructure for Web3 communities. The Association oversees protocol development, supports the contributor ecosystem, and ensures responsible governance through the Towns Lodge DAO framework.communication infrastructure for Web3 communities. Its mission includes protocol governance, support for ecosystem growth, and promoting secure, censorship-resistant digital communication.

A.14 Parent Company Business Activity

Not applicable

A.15 Newly Established

Yes

A.16 Financial Condition for the past three Years

Not applicable

A.17 Financial Condition Since Registration

As a newly formed entity, the River Eridanus Association is in its initial operational phase. It holds treasury assets in ETH and TOWNS tokens to fund protocol governance and operations. As of Q2 2025, no external liabilities are reported, and funds are allocated for development, compliance, and community engagement. Audited financials will be made available in accordance with Swiss regulatory requirements.

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

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-ASSEST WHITE PAPER PURSUANT TO ARTICLE 6(1), SECOND SUBPARAGRAPH, OF REGULATION (EU) 2023/1114

Not applicable

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

D.1 Crypto-Asset Project Name

Towns Protocol

D.2 Crypto-Assets Name

TOWNS token

D.3 Abbreviation

TOWNS

D.4 Crypto-Asset Project Description

Towns Protocol is an open-source, blockchain-based infrastructure designed for building decentralized, real-time messaging applications. It enables the creation of programmable, ownable communication environments called Spaces, which support encrypted group messaging, on-chain memberships, and customizable access rules.

The core technological infrastructure of the Towns Protocol includes:

- Smart contracts deployed on Base, an Ethereum Layer 2 network optimized for scalability and low transaction costs;
- A decentralized network of off-chain stream nodes that handle encrypted messaging and data flow.

A primary feature of the protocol is to enable users to create "Spaces," which are programmable, permissionless, and ownable communication environments. These Spaces are designed to incorporate on-chain membership systems and an extendable reputation system.

The protocol emphasizes:

- End-to-end encryption for user privacy.
- Modular governance via the Towns DAO, coordinated by Towns Lodge.
- Upgradeable infrastructure using the Diamond Pattern smart contract architecture, with opt-out options for individual Spaces.

TOWNS is the native token of the protocol and powers multiple core functionalities:

- Staking for network security and node selection.
- Delegated staking to support node operators.
- Governance participation within the Towns DAO.
- Access to advanced features in Spaces through token delegation.

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

Full Name	Business Address	Function
Here Not There Inc.	45 Rockefeller Plaza, 20th floor, New York, NY, US, 10111	Development company

D.6 Utility Token Classification

No

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

Not applicable

D.8 Plans for the Token

The development of the Towns Protocol and the TOWNS token is guided by a long-term vision of building an open, programmable, and decentralized communication infrastructure. The project has followed a phased approach, with major technical deployments already completed and a series of feature-driven and governance-focused milestones planned.

Completed Milestones (2024–2025)

- **Deployment of the TownsChain (Ethereum L2):** Launch of a dedicated Layer 2 blockchain optimized for communication-based interactions and smart contract modularity.
- **Launch of Towns Web and iOS Applications:** Public release of the protocol's front-end applications, enabling users to create and participate in "Spaces" through intuitive interfaces.

- **Towns SDK Release**: Launch of a software development kit (SDK) to enable third-party developers to build applications and tools on top of the Towns Protocol.
- **Onboarding of Node Operators**: Initial deployment of 30 decentralized stream nodes operated by 10 independent node operators to support real-time messaging infrastructure.
- **Introduction of Core Monetization Features:** Activation of paid memberships, in-app tipping, and an on-chain referral system to support creator-driven economic activity within Spaces.
- **Launch of Treasury-Enabled Spaces:** Enabling of on-chain Spaces with direct access to DAO-controlled treasuries, supporting community governance and operational autonomy.
- **Integration of Fiat On-Ramps:** Addition of credit card payment options and in-app wallet funding to facilitate broader user onboarding.
- **Decentralized Chat Infrastructure:** Activation of a decentralized messaging layer powered by stream nodes and secured through cryptographic guarantees.
- **Strategic Acquisition and Governance Setup:** Acquisition of Llama and creation of the DUNA governance system to support structured, scalable community governance.

Planned Milestones (Q4 2025 and Beyond)

- **Launch of TOWNS Token and Buy-and-Burn Mechanism:** Activation of the native token, TOWNS, including a protocol-level buy-and-burn mechanism to support long-term sustainability.
- **Staking-Enabled Features:** The implementation of staking mechanisms allows users to access advanced functionalities and protocol-level permissions within Spaces.
- **Expansion to Android and Web2 Ecosystems:** Release of an Android application and continued efforts to reach non-crypto native users through seamless onboarding.
- **Launch of Bots Marketplace and AI-Integrated Mini Apps:** Introduction of a marketplace for bot modules and AI-powered mini apps (Frames), enhancing interactivity within Spaces.
- **Zero-Knowledge Identity and Proof-of-Humanity Integration:** Development of identity primitives leveraging ZK proofs to enable anonymous yet verifiable participation in communities.
- **Broadcast Towns and Global Localization:** Launch of public, large-scale communication channels (“Broadcast Towns”) and localization efforts to support key global markets.
- **Developer Incentives and Ecosystem Analytics:** Deployment of community analytics tools and token-incentivized programs to support third-party developers and ecosystem growth.
- **NFT Marketplace and App Ecosystem Expansion:** Launch of a dedicated NFT marketplace and onboarding of third-party applications to enrich the broader Towns ecosystem.

D.9 Resource Allocation

Since inception, the Towns Protocol project has raised **$46.3 million USD** across several funding rounds (Seed, Series A, Series B, and KOL), along with protocol-generated income of **874.2 ETH**.

Resources have been allocated as follows:

- **Core Protocol Development:** Engineering and deployment of the Towns Chain, smart contracts on Base, and the decentralized stream node network.
- **Security & Audits:** Funding comprehensive smart contract audits, including the audit completed by 0xMacro in March 2025.
- **Ecosystem Growth:** Developer grants, community initiatives, and onboarding of node operators.
- **Legal & Compliance:** Establishing the River Eridanus Association, token structuring, MiCAR compliance, and external legal reviews.
- **Operations & Infrastructure:** Operating costs for the Here Not There, Inc. team, including salaries, product development, and infrastructure.
- **Governance & DAO Setup:** Supporting Towns Lodge and governance tooling to enable decentralized decision-making.

The remaining resources are held by the Towns DAO treasury and the River Eridanus Association for future ecosystem development and operational needs.

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

Funds raised through the issuance of the TOWNS will primarily be used to support the following activities:

- Protocol Development and R&D: Advancing the technical development of the Towns Protocol, including research and innovation in decentralized communication infrastructure.
- Operational Costs of the River Eridanus Association: Covering administrative, legal, and operational expenses of the association responsible for stewarding the protocol.
- Ecosystem Expansion and Community Support: Promoting adoption through community engagement, developer support, grants, and initiatives aimed at strengthening the Towns ecosystem.

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

OTPC

ATTR

E.2 Reasons for Public Offer or Admission to Trading

The primary objective is to enable broader use within the Towns Protocol ecosystem. Broader market participation enables a wider community of users to acquire and use the token for its intended functions, such as staking, governance, and unlocking enhanced features in programmable communication Spaces. This also supports the decentralized governance model of the protocol by allowing token holders to engage meaningfully in on-chain decision-making processes through the Towns DAO. Moreover, market liquidity enhances the efficiency and resilience of the token economy, reinforcing the long-term sustainability and adoption of the protocol. It is important to note that the TOWNS token is not designed for investment purposes and does not grant any rights to profit sharing or capital reimbursement; its role is strictly functional within the protocol.

Funds raised through the issuance of the TOWNS token will primarily support:

- **Protocol development and ongoing R&D:** Continued engineering work, security upgrades, scalability improvements, and infrastructure enhancements.
- **Operational costs of the River Eridanus Association:** Covering administrative, legal, compliance, and organizational expenses required to support the management and evolution of the protocol.
- **Ecosystem expansion and community support:** Including developer grants, educational initiatives, incentive programs for node operators and Space creators, and global community engagement.

E.3 Fundraising Target

Not applicable (there is no fundraising target)

E.4 Minimum Subscription Goals

Not applicable (there is no fundraising target)

E.5 Maximum Subscription Goal

Not applicable (not capped)

E.6 Oversubscription Acceptance

Not applicable (no open subscription model)

E.7 Oversubscription Allocation

Not applicable (no open subscription model)

E.8 Issue Price

The token has no issue price. To understand this, please read the following explanation. We consider this launch to constitute a public offering, as the token will not be merely admitted to trading (which, under the strict terminology of MiCAR, refers specifically to admission on a trading platform), but will also be made available through additional channels.

The following processes will take place in parallel:

- The token will be made available to entities licensed under MiCAR to operate as crypto-asset exchanges (for both crypto-to-crypto and crypto-to-fiat transactions). These entities will then exchange the token with users, setting their own conversion prices;
- In addition, the token will be made available to market makers and liquidity providers, who will subsequently introduce the token onto trading platforms;
- River Eridanus Association is seeking admission to trading on Bitvavo.

In all such cases, **there is no direct sale of tokens by River Eridanus Association**. Instead, the token is made available to the aforementioned parties through an alternative mechanism based on the temporary lending of tokens. This model is designed to ensure initial liquidity and support the development of a secondary market, without requiring upfront costs from the aforementioned parties.

River Eridanus Association lends a quantity of tokens to these parties under contractual arrangements that are not intended to transfer ownership or constitute a sale, but rather to enable temporary use for liquidity purposes. These entities do not purchase the tokens, but receive them for a defined period, with the obligation to either return them upon expiry or acquire them at a future-determined value (e.g., based on an average market price).

Such parties use the loaned tokens to create trading pairs with other crypto-assets and to provide initial liquidity, thereby **facilitating market-based price discovery**.

The purpose of this model is to ensure sufficient liquidity during the early stages of the token's lifecycle, to mitigate potential price distortions caused by illiquidity, and to **allow the token's value to emerge freely through supply and demand dynamics among end users**.

From our perspective, this constitutes a hybrid model: there is a public-facing element consistent with a token offering, but the token is not introduced to the market solely via "admission to trading" as defined under MiCAR.

For these reasons, no issuance price is defined in the strict sense, and the price will be entirely determined by the market.

Please also note that no placement agreements are in place. As stated multiple times in this document, the token offeror has not entered into any agreement with CASPs providing the service of placing crypto-assets as narrowly defined under Article 3(1)(22) of MiCAR. Accordingly, the token will not be sold to purchasers via placement, at least not on day one. Should this approach change in the future, the white paper will be updated accordingly.

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

Not applicable

E.10 Subscription Fee

No subscription fee is charged by the issuer. Intermediaries may charge fees for secondary or facilitated purchases.

E.11 Offer Price Determination Method

Free market supply demand, the token offeror does not control the price by any means.

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

265,557,200

E.13 Targeted Holders

ALL

E.14 Holder Restrictions

There are no holder-type restrictions defined by the token offeror. Please note that investors of the project who received tokens in exchange for their investment, ahead of the public offering do have restrictions that prohibit them from selling the token in periods that range from 6 months to 36 months. Availability of the token to the general retail market is solely restricted by the intermediaries that make the token available (e.g. complying with the terms and conditions of the platform, passing KYC-AML checks, etc.).

E.15 Reimbursement Notice

Not applicable, because the token offeror is not directly selling.

E.16 Refund Mechanism

Not applicable, because the token offeror is not directly selling.

E.17 Refund Timeline

Not applicable, because the token offeror is not directly selling.

E.18 Offer Phases

Not applicable, because the token offeror is not directly selling.

E.19 Early Purchase Discount

Not applicable, because the token offeror is not directly selling.

E.20 Time-Limited Offer

Not applicable, because the token offeror is not directly selling.

E.21 Subscription Period Beginning

Not applicable, because the token offeror is not directly selling.

E.22 Subscription Period End

Not applicable, because the token offeror is not directly selling.

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

Not applicable, because the token offeror is not directly selling.

E.24 Payment Methods for Crypto-Asset Purchase

Not applicable, because the token offeror is not directly selling.

E.25 Value Transfer Method for Reimbursement

Not applicable, because the token offeror is not directly selling.

E.26 Right of Withdrawal

Not applicable, because the token offeror is not directly selling.

E.27 Transfer of Purchased Crypto-Assets

Not applicable, because the token offeror is not directly selling.

E.28 Transfer Time Schedule

Not applicable, because the token offeror is not directly selling.

E.29 Purchaser's Technical Requirements

To hold TOWNS tokens, purchasers are required to fulfill the following technical requirements:

• EVM-Compatible Wallet: Purchasers must possess a valid, Ethereum Virtual Machine (EVM)-compatible wallet address that is capable of securely receiving and storing ERC-20 standard

tokens. Compatible wallets include, but are not limited to, MetaMask, Ledger, Coinbase Wallet, or Trust Wallet.

•Ethereum Mainnet (Base L2) Compatibility: The designated wallet must operate on or be compatible with the Ethereum Mainnet, as TOWNS smart contracts are deployed on Base Mainnet, an Ethereum Layer 2 solution.

•Sufficient ETH for Gas Fees: For any subsequent on-chain transactions involving TOWNS tokens (e.g., transfers, staking, or interacting with protocol features), purchasers must ensure they hold sufficient ETH (Ether) in their wallet to cover network gas fees on the Ethereum network.

•Secure Wallet Management: Purchasers are solely responsible for the secure management of their private keys and seed phrases associated with their chosen wallet. It is strongly recommended to use non-custodial wallets where the purchaser maintains full control over their private keys. Storing tokens on exchange or custodial wallets is not recommended, as these may not allow full access or control over the purchased tokens.

•Accurate Wallet Address: It is the purchaser's sole responsibility to provide an accurate and correct wallet address for the transfer of purchased TOWNS tokens. Failure to provide a valid and compliant address may result in delays or non-delivery of the tokens.

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

Not applicable (no placement on the day one)

E.31 CASP identifier

Not applicable (no placement on the day one)

E.32 Placement Form

NTAV

E.33 Trading Platforms name

Bitvavo B.V., 724500MX2WBKDJP9HE56, NL, Keizersgracht 28, 1016ED, Amsterdam, The Netherlands, https://bitvavo.com/nl

E.34 Trading Platforms Market Identifier Code (MIC)

VAVO

E.35 Trading Platforms Access

Investors will be able to access the trading platform via https://bitvavo.com/nl, subject to the rules set forth by the platform operator, which include account registration and KYC/AML/CTF procedures. TOWNS will be traded through spot markets using compatible trading pairs (e.g., TOWNS/USDT or TOWNS/KRW), depending on exchange configuration.

E.36 Involved Costs

Not applicable, because the token offeror is not directly selling. Transaction fees on the trading platform are subject to the terms and conditions established by the platform operator.

E.37 Offer Expenses

Not applicable, because the token offeror is not directly selling.

E.38 Conflicts of Interest

The Towns project is committed to identifying, preventing, and managing any conflicts of interest in accordance with recognized industry standards and best practices. Effective administrative arrangements will be maintained to ensure transparency and fair governance.

The development and operation of the Towns Protocol involve multiple stakeholders, including technical contributors, node operators, and governance participants. While this whitepaper relates solely to the admission to trading of the TOWNS token, potential conflicts of interest may arise due to overlapping roles, decision-making powers, or vested interests among these parties. Where applicable, such conflicts will be disclosed and appropriately addressed.

E.39 Applicable Law

Any dispute relating to this crypto-asset and its white paper shall be governed by and construed and enforced in accordance with the laws of Switzerland without regard to conflict of law rules or principles (whether of Switzerland or any other jurisdiction) that would cause the application of the laws of any other jurisdiction.

E.40 Competent Court

Any disputes or claims arising out of this crypto-asset and its white paper will be subject to the exclusive jurisdiction of the Zug courts.

F. PART F - INFORMATION ABOUT THE CRYPTO-ASSETS

F.1 Crypto-Asset Type

The TOWNS token qualifies as a crypto-asset other than asset-referenced tokens and e-money tokens under MiCAR, as it is intended to provide access to specific functionalities within the Towns Protocol ecosystem — including staking, governance participation, creating and managing Spaces, and activating protocol-level features.

F.2 Crypto-Asset Functionality

The TOWNS token grants access to specific functionalities within the Towns Protocol ecosystem. It is used to:

- Stake or delegate tokens to secure the protocol's proof-of-stake network,
- Participate in governance, including on-chain voting on protocol upgrades and decisions,
- Unlock advanced features within user-created "Spaces" by delegating tokens (e.g., pricing customization, access control, reputation systems).

The token does not represent a claim to financial returns or ownership and is **not** classified as an asset-referenced token or e-money token under MiCAR.

F.3 Planned Application of Functionalities

The functionalities of the TOWNS token are designed to be fully operational at issuance.

F.4 Type of crypto-asset white paper

OTHR

F.5 Type of submission

NEWT

F.6 Crypto-Asset Characteristics

The TOWNS qualifies as a crypto-asset other than an asset-referenced token or an e-money token, as defined under MiCAR. It does not constitute a financial instrument under Directive 2014/65/EU (MiFID II).

Its core characteristics and functionalities are as follows:

- Access & Functional Roles: The TOWNS token provides digital access to specific functionalities within the Towns Protocol, as follows.
- Staking and Delegated Staking: Users can stake TOWNS tokens to support the security and operations of the network, with node operators receiving rewards through programmatic inflation. Node operators must secure a minimum delegation amount to be approved by the DAO and operate. Delegated tokens become non-transferable for a 30-day cooling-off period after the unstake() function is called, ensuring network stability.
- Governance: TOWNS token holders possess voting rights, enabling them to participate in key decisions regarding protocol upgrades, economic parameter adjustments, and improvements to the ecosystem. Proposals can be submitted by Node Operator NFT or Space Owner NFT

holders, and potentially require a minimum threshold of TOWNS to ensure genuine investment in the protocol's future.

- Enhanced Features in "Spaces": Delegation of TOWNS tokens unlocks enhanced features at the protocol level within user-created "Spaces" – programmable communication channels. These enhancements can include additional storage retention for data or the ability to set custom pricing modules for on-chain memberships.
- Non-Financial Nature: The TOWNS token does not grant claims to financial returns, profits, or capital reimbursement. Its sole purpose is to provide access within the Towns Protocol ecosystem.
- Economic Model & Value Accrual: The protocol accrues value through fees collected from on-chain memberships, trading, and user tips within the "Spaces" environment. These fees, collected in ETH, are used to fund a protocol-driven buy-and-burn mechanism which counterbalances the programmatic inflation that rewards node operators.

F.7 Commercial name or trading name

Not required according to ITS 2024/2984. See F.13 below.

F.8 Website of the issuer

https://www.towns.com/

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

2025-08-13

F.10 Publication date

2025-08-12

F.11 Any other services provided by the issuer

Not applicable

F.12 Language or languages of the crypto-asset 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

TOWNS

https://etherscan.io/token/0x000000fa00b200406de700041cfc6b19bbfb4d13

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

Not available

F.15 Voluntary data flag

False

F.16 Personal data flag

Yes

F.17 LEI eligibility

Yes

F.18 Home Member State

Italy

F.19 Host Member States

Austria

Belgium

Bulgaria

Croatia

Cyprus

Czech Republic

Denmark

Estonia

Finland

France

Germany

Greece

Hungary

Ireland

Latvia

Lithuania

Luxembourg

Malta

Netherlands

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

The Towns Token (TOWNS) grants holders the following rights:

- **Staking for Network Security:** Validators stake TOWNS tokens to secure the protocol's proof-of-stake chain.
- **Delegated Staking:** Token holders can delegate their stake to node operators.
- **Governance:** Token holders can vote on protocol upgrades, economic parameters, and improvements.
- **Token Delegation:** Assigning TOWNS to user-created Spaces enables access to enhanced features and functionality.
- **No Claim to Financial Returns**: It is an explicit condition that the TOWNS token does not grant any claims to financial returns, profits, or capital reimbursement. The TOWNS token grants its holders several specific digital rights and access within the Towns Protocol ecosystem.
- Regarding obligations, users bear the responsibility for managing their private keys and complying with applicable laws and regulations, as well as adherence to the protocol's rules and terms implicitly required for exercising the aforementioned rights.

G.2 Exercise of Rights and Obligation

The exercise of rights attached to the TOWNS token is facilitated through the Towns Protocol's on-chain smart contracts deployed on Base Mainnet and the Towns Protocol Chain.

To participate in network security, users can stake their tokens by interacting with the Node Registry smart contract, thereby registering as node operators or validators.

Governance rights are exercised via on-chain voting. Token holders vote on proposals related to protocol upgrades and economic parameters, with voting weight proportional to token holdings. However, the right to submit proposals is restricted to specific holders.

For accessing enhanced features within "Spaces," users must delegate their tokens. This delegation process is handled programmatically through the protocol's smart contracts.

Once proposals are approved through the voting process, the implementation, which may involve deploying changes or updates to the Towns Contracts, is automated as much as possible.

The exercise of these rights is contingent upon holding TOWNS tokens and interacting with the relevant smart contracts on the Base Mainnet and the Towns Protocol Chain.

G.3 Conditions for Modifications of Rights and Obligations

The rights and obligations associated with the TOWNS token may be modified over time through the protocol's decentralized governance system. Proposed changes can be initiated by eligible stakeholders and are subject to community voting. If approved, the implementation of such changes is carried out through on-chain mechanisms. Where applicable, any updates are expected to comply with relevant legal and regulatory requirements.

G.4 Future Public Offers

Not applicable

G.5 Issuer Retained Crypto-Assets

239,105,964 (2.39%)

G.6 Utility Token Classification

False

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

Not applicable

G.8 Utility Tokens Redemption

Not applicable

G.9 Non-Trading Request

True

G.10 Crypto-Assets Purchase or Sale Modalities

The token is made available through the following channels:

- provided on a loan basis to entities offering crypto-to-crypto or crypto-to-fiat exchange services, for the purpose of resale;
- provided on a loan basis proprietary trading firms, including market makers;
- currently seeking admission for trading admission;
- airdrops.

G.11 Crypto-Assets Transfer Restrictions

No inherent permanent restrictions on transferability other than compliance with applicable laws and regulations. Tokens may be subject to progressive distributions, cliff/vesting and temporarily locked to fulfill network participation requirements.

G.12 Supply Adjustment Protocols

TRUE

G.13 Supply Adjustment Mechanisms

The protocol features dynamic supply adjustments through two primary mechanisms:

- **Programmatic Inflation**: TOWNS tokens are programmatically issued as rewards to node operators for securing the Towns proof-of-stake network. This mechanism introduces new tokens into circulation.
- **Protocol-Driven Buy-and-Burn:** To offset the programmatic inflation and manage the token supply, the Towns Protocol implements a buy-and-burn mechanism.

This system creates a balanced approach where new tokens are issued for network security, and a portion of protocol revenue is used to reduce supply, dynaMiCARlly influencing the effective circulating token supply based on ecosystem activity and demand.

G.14 Token Value Protection Schemes

True

G.15 Token Value Protection Schemes Description

The TOWNS token does **not** have a formal value protection scheme. Its value is determined entirely by market dynamics and is **not** backed by reserves, collateral, or redemption guarantees. There is no mechanism that ensures a fixed or minimum price.

Token Value Protection Schemes Description
Although preserving token value is not a primary objective, the protocol incorporates certain economic mechanisms that may contribute to long-term token sustainability. These include:

- **Buy-and-burn program**: The protocol may use ETH revenue generated from fees to buy back and burn TOWNS tokens, potentially reducing supply. This process is managed transparently through the Towns Lodge DAO.
- **Staking requirements**: Network validators must stake TOWNS to participate in consensus, reducing circulating supply and aligning incentives.
- **Vesting and lock-up schedules**: Tokens allocated to team members, investors, and contributors are subject to vesting and lock-up periods, which moderate token release and discourage short-term speculation.
- **Controlled emission schedule**: The token has a fixed maximum supply and follows a defined release curve to minimize inflationary pressure.

These measures are economic design choices rather than formal value protection mechanisms, and they **do not** constitute any guarantee regarding the price or value of the token.

G.16 Compensation Schemes

True

G.17 Compensation Schemes Description

$ TOWNS 2,173,033,276, meaning 21.46% of the supply, will be used to compensate the team. The team is locked for one year starting from the token launch. After the expiration of the first year, the members of the team will start vesting the token compensation on a monthly basis (1,24% each month for 24 months).

G.18 Applicable Law

Any dispute relating to this crypto-asset and its white paper shall be governed by and construed and enforced in accordance with the laws of Switzerland without regard to conflict of law rules or principles (whether of Switzerland or any other jurisdiction) that would cause the application of the laws of any other jurisdiction.

G.19 Competent Court

Any disputes or claims arising out of this crypto-asset and its white paper will be subject to the exclusive jurisdiction of the Zug courts.

H. PART H - INFORMATION ON THE UNDERLYING TECHNOLOGY

H.1 Distributed ledger technology

The Towns Protocol operates using the Ethereum blockchain and is supported by a combination of on-chain and off-chain components to deliver decentralized, real-time messaging and programmable communication.

- **Ethereum Mainnet**: Serves as the base layer for security and final settlement.
- **Towns Chain**: A custom Ethereum Layer 2 chain built using the OP Stack, integrated with Celestia for data availability. It provides scalability, low-cost execution, and inherits Ethereum's security guarantees.
- **Base Mainnet**: An Ethereum Layer 2 chain optimized for performance and cost-efficiency, used for smart contract deployment.
- **Stream Nodes**: Decentralized off-chain infrastructure used for encrypted message routing, validation, and consensus synchronization.

H.2 Protocols and Technical Standards

The protocol is EVM-compatible; all logic is written in Solidity and runs on Towns Chain / Base. The contracts have undergone security audits.

- Token standards used: ERC-20
- Town smart contracts are deployed on Base Mainnet, an Ethereum Layer 2 solution optimized for scalability and efficiency.
- High Performance: The Base Mainnet Chain is designed for high performance, crucial for the efficient operation of the Towns Smart Contracts.
- Lower Transaction Costs: Operating on this chain also ensures lower transaction costs, an essential factor for facilitating frequent and varied interactions within the Towns ecosystem.
- Security: Base Mainnet is built as an Ethereum L2 using Optimism. Blocks roll up to Ethereum Mainnet, deriving the security of one of the most secure public blockchain networks.

H.3 Technology Used

The Towns Protocol utilizes a multi-layered architecture combining on-chain smart contracts with decentralized off-chain infrastructure to enable secure, scalable, and programmable communication.

- **Towns Chain**: A custom-built Ethereum Layer 2 (L2) chain using the **OP Stack**, optimized for messaging throughput and minimal transaction costs. It leverages **Celestia** for data availability and inherits the security of Ethereum's Proof-of-Stake consensus.
- Smart **Contracts**:
  - Deployed on **Base**, an Ethereum L2, and fully compliant with **ERC-20** standards.
  - Written in **Solidity**, allowing composability and compatibility with EVM tools and wallets.
  - Governs functionalities like token distribution, staking, governance voting, and access to communication Spaces.
- **Off-chain Stream Nodes**:
  - A decentralized network of independent operators responsible for encrypted message validation, routing, and synchronization.
  - Enable real-time, censorship-resistant communication at scale.
- **End-to-End Encryption**:

    - Uses **Curve25519** for public-private key cryptography and **AES-GCM** for session encryption, ensuring secure, private messaging.
- **Rollup Architecture**:
    - Transactions are processed on L2 and periodically rolled up to Ethereum L1 for finality and auditability.
    - This model enables both **scalability** and **low environmental impact** through reduced on-chain data usage.

H.4 Consensus Mechanism

Blockchains rely on consensus mechanisms to ensure their decentralized network of nodes can reach agreement around transaction validity and ordering. Ethereum relies on Proof-of-Stake consensus, which requires that validators stake the native token (e.g. ETH) in order to qualify as a validator. Validators are selected for consensus based on the proportion of tokens they have staked, and in some cases can lose some of the staked token if they have been shown to sign invalid transactions.

Building on such foundations, Towns Protocol employs a hybrid consensus model leveraging the strengths of Ethereum's Proof-of-Stake (PoS) and Celestia-based data availability. The protocol ensures security, scalability, and message integrity through the following layers:

- **Ethereum Layer 1 (L1) Finality**
  The Towns Chain is an L2 rollup built on the OP Stack. It periodically posts transaction data to Ethereum L1, thereby inheriting Ethereum's robust security guarantees. Ethereum's PoS consensus selects validators based on the amount of ETH staked, ensuring decentralized trust and tamper resistance.
- **Towns Chain (L2) Execution Layer**
  The Towns Chain, built on the OP Stack, handles transaction execution and state management for the protocol. Validators on this layer are required to stake **TOWNS** tokens. These validators:
    - Validate and sequence transactions (including messaging, membership, and governance actions).
    - Maintain protocol liveness and integrity by producing and propagating blocks.
    - Are rewarded with periodic TOWNS emissions and a share of protocol fees.
- **Stream Node Validation (Off-Chain Layer)**
  Off-chain decentralized stream nodes validate and route encrypted messages in real time. While these nodes do not contribute to consensus on the canonical chain, they:
    - Authenticate sender permissions using on-chain membership proofs.
    - Validate anti-replay protections and signatures.
    - Coordinate message sequencing and broadcast across clients.
- **Staking Requirements**
  Validators on Towns Chain must stake TOWNS tokens to operate. Delegators may also stake their tokens with trusted validators and share in rewards, supporting decentralization and economic alignment.

H.5 Incentive Mechanisms and Applicable Fees

Every transaction on an Ethereum Layer 2 chain requires payment of a gas fee. The gas fees constitute the incentives for the maintenance of the network, which in turn is based on the renown stake-of-proof mechanism as explained in the H.4 section above.The Towns Protocol also implements a multifaceted incentive and fee structure to support protocol sustainability, align stakeholder incentives, and maintain security:

- **Transaction Fees (Gas Fees):** All on-chain interactions—such as token transfers, staking actions, or governance participation—incur gas fees. These are paid in **ETH** and reflect standard **Ethereum Layer 2 (Base)** pricing. The Towns Chain utilizes the **OP Stack**, enabling low-cost, high-throughput transactions.
- **2. Node Operator Rewards**

- Validators and stream node operators are incentivized through **bi-weekly TOWNS rewards** distributed via DAO-managed smart contracts.
- **Node commission models** allow operators to set a percentage fee deducted from staker/delegator rewards.
- Active participation in the network, including uptime, performance, and message propagation, is required to earn rewards.

- **Delegation Incentives**
  - Token holders who do not run nodes can **delegate their TOWNS tokens** to validators. In return, they receive a share of node rewards, creating passive participation aligned with protocol growth.
- **Buy-and-Burn Mechanism:** A portion of ETH-based protocol revenues may be used for periodic **buy-back and burn of TOWNS tokens**, reducing circulating supply and aligning long-term value with usage and demand. This mechanism is **governed by the Towns Lodge DAO** and is not guaranteed.
- **No Subscription Fees:** The protocol itself does not impose subscription fees. However, third-party platforms offering access to TOWNS (e.g., centralized exchanges) may charge trading or withdrawal fees at their discretion.

H.6 Use of Distributed Ledger Technology

False - No, DLT not operated by the issuer or a third-party acting on the issuer's behalf.

H.7 DLT Functionality Description

Not applicable.

H.8 Audit

True

H.9 Audit Outcome

An independent security audit of the Towns Protocol smart contracts was conducted by Macro, a reputable blockchain security firm, between March 7 and March 10, 2025. The audit focused on Solidity contracts deployed within the contracts/src/tokens/towns directory and aimed to evaluate their correctness, security, and architectural integrity. A total of four issues were identified: two low-severity vulnerabilities and two code quality findings. Of these, three were fully addressed by the Towns development team, and one code quality recommendation was acknowledged but not implemented. The audit confirmed that the contracts were generally well-structured and that the project team was responsive in remediating the identified concerns. No critical or high-severity vulnerabilities were found. The results of the audit support the view that the Towns Protocol smart contracts operate with a strong baseline of security and technical soundness, while ongoing diligence remains advisable. The full audit report is publicly accessible here: https://0xmacro.com/library/audits/towns-9

I. PART I - INFORMATION ON RISKS

Subject to the provisions of MiCAR and any other applicable mandatory legal requirements, each holder of the TOWNS token described in this crypto-asset white paper assumes full responsibility for their actions and individually bears all associated risks. To the maximum extent permitted by law, any and all liability arising from or related to the risks set out in this document is hereby disclaimed. Prospective holders are strongly advised to carefully consider the following risk factors before acquiring TOWNS.

I.1 Offer-Related Risks

- General Risk Factors Associated with Crypto-Asset Offerings: Public offerings and admission to trading of crypto-assets, including $TOWN, is subject to general risks inherent to the broader cryptocurrency market, including but not limited to:
- Market Volatility: The value of $TOWN may experience substantial fluctuations driven by investor sentiment, macroeconomic developments, and market conditions.

- Regulatory Risks: Changes in legislation, applicable laws, compliance requirements or the implementation of new regulatory frameworks could affect the availability, trading, or use of such assets.
- Security Risks: The risk of exploitation, hacking or security vulnerabilities of the underlying protocol and/or contracts of the token leading to a loss.
- Reputational Risks The potential for damage to an organization's credibility or public trust, which can negatively impact stakeholder confidence and overall business viability.
- Dependence on Ecosystem and Community Viability: The value of TOWNS is closely linked to the ongoing performance, governance, and public perception of the Towns Protocol. The project is stewarded by the River Eridanus Association and supported by its broader community. Any failure in execution, funding, infrastructure maintenance, user adoption, or community engagement could adversely affect the protocol's sustainability. Moreover, TOWNS also relies on the strength of its community narrative. Declining public interest, loss of user confidence, or negative sentiment may significantly impact the token's perceived value and long-term viability.
- Listing and Delisting Risks: The listing of TOWNS on crypto-related platforms is subject to the internal policies and discretion of such platforms. There is no guarantee that the token will be listed, or remain listed, on any particular platforms, including but not limited to aggregators, exchange services, and trading platforms. A delisting — whether temporary or permanent — could significantly limit or completely hinder the ability of token holders to trade TOWNS, thereby impacting its liquidity, accessibility, and market value.

I.2 Issuer-Related Risks

- **Insolvency:** As with every other commercial endeavor, the risk of insolvency of the issuer is given. This could be caused by but is not limited to lack of interest from the public, lack of funding, incapacitation of key developers and project members, force majeure (including pandemics and wars) or lack of commercial success or prospects.
- **Regulatory Compliance Risks**: The issuer operates within a dynamic and evolving legal and regulatory framework. Failure to comply with applicable requirements—such as those under MiCAR or other relevant jurisdictions—could result in enforcement actions, financial penalties, trading restrictions, or prohibition on further distribution of the token. Additionally, the issuer may face legal proceedings, adverse regulatory interpretations, or contractual disputes arising from jurisdictional inconsistencies, third-party claims, or issues related to intellectual property, consumer protection, or financial regulation. These developments could compromise the issuer's ability to maintain support for the protocol or impair the legal standing and acceptance of TOWNS in specific jurisdictions.
- **Operational and Technology Management Risks:** The effective operation of the Towns Protocol depends on the issuer's internal procedures, resource management, and technological infrastructure. Any breakdown in operational integrity—whether due to internal mismanagement, inadequate staffing, or technical failure—could result in service disruption, degraded protocol performance, or security vulnerabilities. The issuer is also responsible for ongoing protocol maintenance and upgrades. Inadequate management of software updates or failure to respond to critical security threats could expose the network to exploit or obsolescence. Additionally, inadequate management of technological updates or failure to keep pace with technological advancements can render the protocol or the TOWNS obsolete or vulnerable.
- **Financial Risk:** The issuer may face financial instability resulting from liquidity constraints, market volatility, or exposure to third-party counterparties. Such risks could impair the issuer's ability to meet operational needs, support node infrastructure, or fulfill community and governance commitments.
- **Fraud, Mismanagement, and Governance Risks:** There exists a risk of internal misconduct, mismanagement, or fraudulent activity by the issuer or its representatives. Such events could lead to reputational harm, regulatory scrutiny, and erosion of user trust—directly impacting the adoption and market standing of the token. Poor strategic decisions, lack of governance oversight, or mismanagement of financial and operational resources could affect the long-term viability of the Towns Protocol and, consequently, the TOWNS.

- **Conflicts of Interest:** Conflicts may arise between the interests of the issuer and those of the token holders. For instance, decisions concerning token issuance, protocol upgrades, or governance rights may not always align with the expectations or best interests of the community. Unaddressed conflicts may lead to governance disputes or loss of stakeholder confidence.
- **Dependency on Key Individuals and Third Parties:** The success of the Towns Protocol heavily relies on its leadership, key developers, technical expertise, and core team members. The loss or incapacitation of key personnel could cause significant delays in project implementation, affect strategic decisions, or reduce investor confidence. Furthermore, the Issuer likely relies on various third-party service providers (e.g., for technical infrastructure, security, legal, or other operational aspects). Failure of these partners to deliver services, changes in their policies, or regulatory actions affecting them could disrupt the Towns Protocol's operations and token functionality.
- **Strategic and Business Model Risks:** The industry requires continuous adaptation to evolving regulations, user needs, and technological advancements. If the Issuer fails to align its business model with market trends or maintain innovation, it may experience reduced platform adoption, negatively affecting the demand of the TOWNS.
- **Competition Risk:** The issuer and the Towns Protocol operate within a highly competitive and rapidly evolving technological and market landscape. Competing protocols, messaging platforms, or blockchain-based infrastructure projects—whether centralized or decentralized—may offer similar or superior functionality, incentives, or user experience. The emergence or adoption of such alternatives may reduce user engagement, limit the growth of the Towns ecosystem, or negatively affect the market value of the TOWNS. Furthermore, increased competition may pressure the issuer to allocate additional resources or make strategic decisions that carry operational, financial, or technical risks.
- **Reputation Risk:** The Issuer faces the risk of negative publicity due to various reasons, including operational failures, security breaches, association with illicit activities, or legal disputes. Such incidents can damage the Association's reputation, leading to a loss of confidence in the platform and the TOWNS, thereby reducing demand and adoption.

I.3 Crypto-Assets-Related Risks

- **Market Risk:** Crypto-asset prices are inherently highly volatile and speculative, influenced by a multitude of factors including market sentiment, macroeconomic conditions, regulatory developments, and institutional adoption. The price of TOWNS is expected to fluctuate significantly, especially in early trading phases, due to these external factors. As the crypto-asset has no intrinsic value, its price is solely determined by supply and demand. This poses a high risk of substantial losses for holders, who should be prepared to lose the complete amount invested.
- **Liquidity Risk:** The liquidity of the TOWNS token is contingent upon trading activity levels on various exchanges. Low trading volumes may restrict the ability to buy or sell large amounts of the token without significantly impacting its market price, potentially leading to price slippage and substantial financial losses, particularly during periods of rapid market movements or stress. There is no guarantee that a liquid secondary market will develop for the TOWNS.
- **Custodial and Self-Custody Risk**: The TOWNS ownership is secured through private keys associated with the token holder's wallet. The loss or theft of private keys results in the permanent loss of assets, as blockchain transactions are generally irreversible. The token holders storing tokens on centralized exchanges or custodial platforms face counterparty risks, including potential insolvency, hacking incidents, or regulatory seizures of the platform. While hardware or software providers of non-custodial wallets generally fall outside the scope of direct regulation, ensuring secure management of private keys is paramount for token bearers.
- **Smart Contract Risk:** The TOWNS operates on smart contracts, which are automated programs executed on the blockchain. These smart contracts are susceptible to coding vulnerabilities, bugs, or security flaws that could be exploited by malicious actors. Such exploitation could lead to unauthorized transactions, asset loss, unauthorized data access, or unintended operational consequences. Despite security audits having been conducted, unforeseen vulnerabilities may still pose risks to token security and functionality.

- **Privacy Concerns:** All transactions on the blockchain are permanently recorded and publicly accessible, which can potentially expose user activities. Although addresses are pseudonymous, the transparent and immutable nature of blockchain allows for advanced forensic analysis and intelligence gathering. This level of transparency can make it possible to link blockchain addresses to real-world identities over time, compromising token holder privacy.
- **Regulatory and Tax Risk:** The legal and regulatory status of crypto-assets is still evolving and varies across jurisdictions. Future changes in regulatory frameworks, or the introduction of new laws, could significantly influence the use, functionality, or tradability of the TOWNS and the Towns Protocol. Furthermore, specific regulators may qualify the crypto-asset as a security or other financial instrument under their applicable law, which could have drastic consequences for the crypto-asset, including the potential complete loss of invested capital. Holders are solely responsible for complying with all applicable tax laws in their jurisdiction, including reporting and payment of income, wealth, or similar taxes related to token appreciation or depreciation.
- **Counterparty Risk:** While the TOWNS itself is a decentralized asset, its interaction within the broader crypto ecosystem involves various third parties, such as trading platforms, and crypto-asset service providers (CASPs). Engaging with these entities introduces counterparty risks, including the failure of the other party to fulfill their obligations due to factors such as insolvency, regulatory non-compliance, or fraudulent activities. Such failures could significantly impact the ability to trade the token.
- **Blockchain Dependency Risk:** The TOWNS is entirely dependent on the underlying blockchain infrastructure, namely Ethereum's Proof-of-Stake model via Layer 2 solutions. Any issues with these networks, such as downtime, congestion, or security vulnerabilities, could adversely affect the token's functionality, transferability, or trading. This also includes potential gas fee volatility impacting transaction costs and efficiency.
- **Market Abuse Risk:** Crypto-assets are potentially prone to increased market abuse risks, as the underlying infrastructure could be used to exploit arbitrage opportunities through schemes such as front-running, spoofing, pump-and-dump, and fraud across different systems, platforms, or geographic locations. This risk is particularly true for crypto-assets with a low market capitalization and few trading venues, and potential investors should be aware that this could lead to a total loss of invested funds. MiCAR aims to lay down rules to deter market abuse

I.4 Project Implementation-Related Risks

- **Reliance on Project Development and Milestones:** The successful implementation of the Towns Protocol and the functional relevance of TOWNS depend on the effective and timely development of the platform. The project has stated plans to launch the token to mainnet in August 2025. Delays in development, unforeseen technical challenges, or failure to implement planned features could negatively affect the platform’s ability to deliver services as intended. This includes aspects such as infrastructure development and integrations. The token offeror reserves the right to revise the development roadmap at any time, including suspending or discontinuing certain features, meaning purchasers should not assume the delivery of specific functionalities unless explicitly guaranteed.
- **Funding and Resource Allocation Risks:** The successful execution of the project is often dependent on securing necessary funds through token sales or other means. If fundraising targets are not met in full, it may lead to budget adjustments, delays, scaling down, or even discontinuation of the project. Mismanagement or insufficient allocation of financial or human resources could impede the timely delivery of project milestones.
- **Dependency on External Partners and Third-Party Infrastructure:** The Towns Protocol may rely on various external systems and service providers for its deployment and operations. Engaging with these entities introduces counterparty risks, including the failure of the other party to fulfill their obligations due to factors such as insolvency, regulatory non-compliance, or fraudulent activities. Such failures could significantly impact the ability to operate the platform or trade the token.
- **Operational Risks:** Failure to develop or maintain effective internal control mechanisms or encountering difficulties in their implementation or improvement could harm the issuer's business, causing disruptions, financial losses, or reputational damage. Issuers are generally required to identify sources of operational risk and minimize them through appropriate systems,

controls, and procedures, as well as establish business continuity policies and plans to ensure data preservation and activity maintenance in case of ICT system interruptions

I.5 Technology-Related Risks

- **Blockchain Dependency and Network Risks:** The TOWNS is entirely dependent on the underlying blockchain infrastructure, specifically Ethereum's Proof-of-Stake model via Layer 2 solutions. Any issues with these networks, such as downtime, congestion, security incidents, or protocol changes, could adversely affect the token's functionality, transferability, or trading. This also includes potential gas fee volatility impacting transaction costs and efficiency. Blockchain network overloads or security issues can cause transaction delays or failures. Furthermore, blockchain forks (e.g., due to governance decisions on Ethereum) could lead to splits in the blockchain, potential confusion regarding transaction validity, and impact the token's trading and liquidity.
- **Smart Contract Vulnerabilities:** The TOWNS token operates on smart contracts. These smart contracts are susceptible to coding vulnerabilities, bugs, or security flaws that could be exploited by malicious actors. Such exploitation could lead to unauthorized transactions, asset loss, manipulation of staking. It is important to note that no single audit is guaranteed to catch all possible bugs. Upgrades or changes to the underlying network could affect smart contract behavior, leading to compatibility issues.
- **Custodial and Private Key Management Risks:** The security of crypto-assets like TOWNS relies on the secure management of private keys associated with the user's wallet. The loss or theft of private keys results in the permanent loss of assets, as blockchain transactions are generally irreversible. The token holders storing tokens on centralized exchanges or custodial platforms face risks associated with the provision of such centralized services, including risks related to compliant and secure segregation of funds, and robustness of the cybersecurity infrastructures of such providers; that is in addition potential insolvency, hacking incidents, or regulatory seizures of such service providers. While hardware or software providers of non-custodial wallets generally fall outside the scope of direct regulation, ensuring secure management of private keys is paramount for token bearers. Phishing attacks, malware, scams, or improper wallet management increase exposure to hacking attempts.
- **Technological Obsolescence and Innovation Risk:** The blockchain and crypto-asset industry is characterized by rapid innovation. Emerging technologies, new regulatory frameworks, or competitive solutions could render the Towns Protocol's design or the TOWNS less competitive or even obsolete. For example, advancements in quantum computing could potentially challenge current cryptographic standards, impacting the security of underlying DLTs. If the Offerror fails to continuously adapt to industry trends and maintain innovation, the token’s value and demand may decline over time.
- **Cybersecurity and Data Breach Risks:** Beyond smart contract specific vulnerabilities, there are broader cybersecurity risks including hacking incidents, data breaches, and other security flaws affecting the overall infrastructure. These can lead to unauthorized access, asset loss, or disruption of services. Ensuring appropriate ICT systems and security arrangements are in place to safeguard the availability, authenticity, integrity, and confidentiality of data is crucial.
- **Anonymity and Privacy Risks:** Although transactions on public blockchains are pseudonymous, their transparency can allow external observers to analyze user behavior and potentially link wallet addresses to real-world identities. This may expose users to privacy violations, phishing attempts, or reputational risks.
- **Third-Party Technology Dependencies:** The project's technology stack may rely on various third-party technologies or services, beyond just the core blockchain (e.g., cloud infrastructure, blockchain nodes, data storage providers). Failures, downtimes, or security breaches affecting such infrastructure could lead to delays, data loss, degraded performance, or inoperability.
- **Audit Limitations:** No single audit is guaranteed to catch all possible bugs. This means that despite audits, unforeseen vulnerabilities may still pose risks. Auditors also primarily review only the code presented to them, not necessarily deployment scripts or third-party software outcomes, and their reports do not guarantee absolute security.

- **Consensus and Governance Risks:** Errors or vulnerabilities in the consensus mechanism could result in chain forks or network stalls, undermining stability and trust. In addition, weaknesses in protocol governance—such as lack of transparency, stakeholder imbalance, or slow reaction to network issues—may hinder effective protocol upgrades and decision-making.
- **Protocol Sustainability Risk:** If the Towns Protocol fails to achieve sufficient adoption or transaction volume, its token economy may not generate enough activity to support long-term validator incentives, governance participation, or operational viability. This may lead to future changes in tokenomics or network parameters, potentially affecting holders.

I.6 Mitigation Measures

- **Security Audits:** The Towns Protocol has undergone security audits. It is important to note that no single audit is guaranteed to catch all possible bugs. The purpose of these audits is to minimize potential vulnerabilities.
- **Leveraging Established and Audited Blockchains:** The Towns Protocol relies on the Ethereum blockchain's Proof-of-Stake (PoS) consensus model via Layer 2 solutions. This approach benefits from the significant public scrutiny and established nature of the Ethereum network, which is expected to ensure a stable continuation of the project and reduces risks associated with developing a new, unproven blockchain from scratch.
- **Secure Private Key Management:** Although not explicitly a mitigation measure by the issuer, the design of crypto-assets necessitates that the security of users' tokens relies on their secure management of private keys (Phishing attacks, malware, scams, or improper wallet management increase exposure to hacking attempts)
- **Access Control and Monitoring:** The person seeking admission to trading should ensure that logical access to ICT systems is restricted to authorised individuals designated by them, assigned according to tasks and responsibilities, and limited to individuals who are appropriately trained and monitored. Electronic access by applications to data and systems should be limited to the minimum required for the service.
- **Incident Response and Contingency Planning:** A structured incident response plan is in place to handle potential breaches, smart contract exploits, or infrastructure outages. This includes predefined escalation paths, forensic analysis protocols, communication procedures, and remediation strategies designed to minimize impact and ensure transparent handling of adverse events.
- **Transparent Communication with Users and Stakeholders:**Ongoing updates regarding the Towns Protocol, security practices, governance decisions, and system upgrades are communicated transparently to users and stakeholders. This proactive approach strengthens community trust and enables informed decision-making among token holders.

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

J.1 Adverse impacts on climate and other environment-related adverse impacts

As the TOWNS is a newly developed project, all information regarding potential adverse climate and environmental impacts is based on reasonable estimates and projections derived from its underlying technology stack and operational framework.

The Towns Protocol is deployed on a hybrid Layer 2 architecture combining two distinct environments, Towns Chain, a Celestia-based modular PoS rollup, and Base, an Ethereum Layer 2 built on the OP Stack. Both are designed to optimize energy efficiency, minimize reliance on Layer 1 transactions, and reduce the overall environmental footprint.

- Estimated Annual Energy Consumption: Based on comparisons with industry benchmarks and internal infrastructure characteristics, the Towns Protocol’s estimated annual energy consumption is below 500,000 kWh. This low energy footprint is primarily due to:
    - A smaller validator set, which requires less computational overhead;

- The use of Celestia's light-node data availability model, which significantly reduces execution-layer burden.

For reference, Ethereum's Proof-of-Stake (PoS) network is estimated to consume between 2.6 gigawatt-hours (GWh) and 10 GWh per year, according to recent studies by the Crypto Carbon Ratings Institute (CCRI, 2023) and Digiconomist (2025). In comparison, the Tezos blockchain consumes approximately 128 megawatt-hours (MWh) per year, based on estimates provided by CCRI (2022) and the Tezos Foundation (2025). These figures serve as useful benchmarks for assessing the relative energy efficiency of PoS-based blockchain systems.

- Consensus Mechanism: The Towns Protocol leverages a fully Proof-of-Stake (PoS)-based infrastructure:
  - Towns Chain: A Celestia-based, application-specific L2 that decouples consensus from execution. Validators stake TOWNS to secure block production and data availability, enabling modular scaling and reduced energy usage.
  - Base (Ethereum L2): Inherits Ethereum's PoS finality and security guarantees. It handles staking, rewards, and governance operations, with periodic settlement to the Ethereum Mainnet.

  Validator selection is token-based and deterministic, avoiding the energy-intensive operations typical of PoW systems. This consensus structure enables a significant reduction in energy consumption and greenhouse gas emissions.
- Incentive Mechanisms and Applicable Fees: In a PoS system, validators are incentivized through transaction fees and staking rewards for securing the network and validating transactions. Unlike PoW, this mechanism requires significantly less computational power, further contributing to energy efficiency.
- Use of Layer 2 and Off-Chain Processing: Towns Protocol is Layer 2-native and operates through:
  - Towns Chain, which processes encrypted messages, consensus, and state changes off-chain.
  - Base, which supports smart contracts for governance, staking, and programmable access to "Spaces."

Both systems process transactions off-chain and submit batched state commitments to Layer 1, significantly lowering on-chain computational demands and improving environmental performance..

- Batch Processing and Network Efficiency: By bundling multiple transactions into a single interaction with the mainnet, the protocol minimizes the number of energy-intensive operations. This batching approach improves scalability and cost-efficiency while reducing the overall environmental impact of user activity.
- Smart Contract Audit and Software Integrity: The Towns Protocol's smart contracts were independently audited by 0xMacro in March 2025. The audit identified two low-severity issues and two code quality suggestions, most of which were promptly resolved. It confirmed the soundness and efficiency of the deployed code. Efficient, secure contract design supports reduced energy waste and sustainable infrastructure.

These technological and operational choices are consistent with the objective of reducing greenhouse gas emissions and enhancing environmental performance in accordance with MiCAR's sustainability indicators. While specific quantitative metrics on environmental performance are not provided at this stage, the protocol's reliance on Layer 2 scaling and Ethereum's PoS mechanism supports a reduced adverse impact on the climate when compared to traditional Proof-of-Work networks.

The Towns Protocol remains committed to the ongoing monitoring of its sustainability indicators and intends to expand its environmental disclosures in future updates, in line with evolving regulatory technical standards.