

# Project Research Dossier

## Kerne Protocol - Pre-TGE Due Diligence

**Research question:** Does Kerne's disclosed architecture and token setup support a credible pre-TGE thesis, and where are the largest execution, dilution, governance, and counterparty risks?

**Eligibility note:** Kerne's own materials state that KERNE is deployed but not publicly circulating, no TGE is scheduled, and the planned public-sale/TGE allocation has not been distributed. A project memo also states that Kerne has no legal entity and cannot take equity investment or receive a grant wire. I found no completed public raise in the primary materials reviewed. Because 'no prior public raise' is a quest-specific eligibility condition, this point should still be confirmed against Legion's interpretation before final submission.

### 1. What the project builds and why it matters

Kerne is a Base-based synthetic-dollar protocol. Users mint **kUSD** 1:1 from USDC through a Peg Stability Module (PSM). **skUSD** is an ERC-4626 wrapper intended to receive yield generated by the protocol's delta-neutral strategy. The strategy combines productive ETH/LST collateral with an equal-notional perpetual short position, aiming to collect staking yield and funding while reducing directional ETH exposure. Kerne also publishes reserve, risk, and funding data through public endpoints, which makes several operating claims independently checkable.

The core value proposition is therefore not simply 'high stablecoin yield'; it is a transparent synthetic-dollar stack where backing, contract addresses, and key risk data can be verified. The design is still very early-stage: current scale is small and the protocol's own materials distinguish modeled yield from realized yield.

### 2. Tokenomics and dilution model

| Allocation         | Share | Current status / intended schedule                         |
|--------------------|-------|------------------------------------------------------------|
| Team               | 20%   | Planned 4-year linear vesting, 1-year cliff; not deployed  |
| Investors          | 15%   | Planned 2-year linear vesting, 6-month cliff; not deployed |
| Ecosystem / LM     | 25%   | Planned esKERNE emissions; allocation currently unfunded   |
| Treasury           | 15%   | Planned DAO-controlled unlock; DAO not yet live            |
| Community / Opal   | 5%    | Planned TGE distribution; no claim contract                |
| Protocol liquidity | 5%    | Intended TGE lock; nothing locked today                    |
| Public sale / TGE  | 5%    | Planned liquid at TGE; no TGE scheduled                    |
| Catalyst / reserve | 10%   | Currently Safe-controlled                                  |

KERNE has a fixed supply of **1 billion tokens**. The most important dilution observation is that the published allocation and vesting schedules are policy commitments rather than deployed enforcement. According to Kerne, 100% of KERNE is presently held as one balance in a 2-of-3 governance Safe; no vesting contract segregates the team, investor, treasury, or public-sale allocations. This makes the headline schedule less protective than a fully on-chain vesting system. FDV cannot be meaningfully calculated before a market price exists, so pre-TGE analysis should focus on supply distribution, unlock design, and control of the Safe rather than a speculative valuation.

### 3. Unlock, governance, and dilution risks

**Primary risk:** planned vesting is not yet enforced on-chain. Until vesting/escrow contracts are actually deployed and allocations are separated, the governance Safe effectively controls the full token supply. This creates execution and governance risk even though the total supply itself is cryptographically capped. A later TGE can also introduce meaningful circulating supply quickly: the public-sale allocation is intended to be liquid at TGE and part of the community allocation is also intended to be liquid.

**Positive counterweight:** Kerne discloses this gap explicitly instead of presenting intended vesting as already enforced. That improves verifiability, but disclosure does not remove the underlying control risk.

### 4. Team and technical verification

Kerne's materials describe a three-person founding team and explicitly state that no legal entity has been incorporated. That creates a material counterparty/legal limitation: there is no incorporated entity for investors or institutions to contract with. The protocol's technical footprint is more verifiable. Core contracts are published and verified on Base, and Hexens completed an external audit covering five contracts. Kerne reports ten findings in total - none critical - with eight fixed and two acknowledged. All ten findings were in KerneVault; the live mint PSM had zero findings in that review. An audit lowers but does not eliminate smart-contract risk.

### 5. Key risks

- **Execution / scale:** the protocol is still operating at very small scale; early operational results may not generalize to materially larger TVL.
- **Hedge venue concentration:** the strategy depends on perpetual-market infrastructure and funding conditions; negative funding or venue failure can reduce or reverse strategy returns.
- **Governance / custody of supply:** the 2-of-3 Safe currently controls the whole KERNE supply, while intended vesting schedules are not yet enforced.
- **Smart-contract risk:** external review found no critical issues, but acknowledged findings remain and audits cover specific code at a point in time.
- **Legal / counterparty risk:** Kerne states that it has no incorporated entity or governing jurisdiction, which is a blocker for some counterparties.
- **Token-distribution risk:** KERNE has no market yet, so there is no current price discovery, liquidity, or observable FDV/circulating-market-cap relationship.

### 6. Conclusion

Kerne is unusually transparent for a project at this stage: supply control, missing vesting enforcement, audit findings, reserve data, and even corrections to earlier disclosures are documented publicly. That makes it researchable. The same primary sources also show why conviction should remain conditional: the protocol is small, the team is unincorporated, the hedge strategy faces venue/funding risk, and the token distribution schedule is not yet enforced on-chain. The strongest pre-TGE diligence trigger is therefore not a price target; it is whether Kerne converts its stated token policies into deployed vesting/escrow controls and demonstrates that the strategy remains operational as third-party usage grows.

**Disclosure:** No position. No compensation or incentive received for this research.

### Primary sources

Kerne Protocol Whitepaper v3.0 - <https://kerne.fi/whitepaper>

Kerne Security / Audits - <https://kerne.fi/security/audits>

Kerne Transparency - <https://kerne.fi/transparency>

Kerne Terms of Service - <https://kerne.fi/terms>

Kerne public GitHub / underwriting memo - <https://github.com/kerne-protocol/contracts-public/blob/main/underwriting/kusd-underwriting-memo-2026-08-08.md>

Kerne commitment / TGE disclosure - <https://kerne.fi/commit>