

Nomic

Security assessment by HashEye · prepared for Nomic DAO Foundation

HASHEYE AUDITED

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Project Summary Contact Information The following project manager was associated with this project: Jeff Braswell , Project Manager jeff.braswell@hasheyeye.io The following engineering director was associated with this project: Josselin Feist , Engineering Director, Blockchain josselin.feist@hasheyeye.io The following consultants were associated with this project: Anish Naik , Consultant Tjaden Hess , Consultant anish.naik@hasheyeye.io tjaden.hess@hasheyeye.io Project Timeline The significant events and milestones of the project are listed below. Date Event September 6, 2024 Pre-project kickoff call September 18, 2024 Status update meeting #1 September 27, 2024 Status update meeting #2 October 4, 2024 Status update meeting #3 October 14, 2024 Delivery of report draft October 15, 2024 Report readout meeting November 19, 2024 Delivery of comprehensive report with fix review addendum HashEye 4 Nomic Security Assessment PUBLIC

Executive Summary Engagement Overview HashEye was engaged to review the security of the Nomic blockchain and nomic-bitcoin library. Nomic is a decentralized custody sidechain that allows for the deposit, transfer, and withdrawal of BTC (denominated as nBTC) and integrates with the IBC protocol. A team of two consultants conducted the review from September 3 to October 11, 2024, for a total of 10 engineer-weeks of effort. Our testing efforts focused on two core areas. First, we investigated whether there was any vector that could lead to a loss or theft of funds from the system. Second, we investigated denial-of-service (DoS) attack vectors that could bring the chain to a halt. With full access to source code and documentation, we performed static and dynamic testing of the targets, using automated and manual processes. **Observations and Impact** The Nomic codebase is well-organized and cleanly implemented. We did not identify any attack vectors that could lead to the theft or destruction of funds. The core distributing team has a strong understanding of the system's underlying invariants, and the code includes a variety of stopgaps to mitigate malicious or unexpected behavior. However, the code-level documentation provided was insufficient given the complexity of the system. It was difficult to reason through the use-cases of the various macros, the functionality of various modules, and the end-to-end flow of transactions. Thorough documentation aids in maintaining the codebase while also aiding in future security reviews. **Recommendations** Based on the codebase maturity evaluation and findings identified during the security review, HashEye recommends the following steps prior to deployment: • Remediate the findings disclosed in this report. These findings should be addressed as part of a direct remediation or as part of any refactor that may occur when addressing other recommendations. • Improve documentation. The documentation for the system is insufficient. It would be beneficial to invest time into developing high-level walkthroughs, examples, and diagrams to showcase the interactions between components of the system. Additionally, enriching the inline documentation to highlight each module's and function's expected behavior would be beneficial. HashEye 5 Nomic Security Assessment PUBLIC

Finding Severities and Categories The following tables provide the number of findings by severity and category.

EXPOSURE	ANALYSIS	Severity	Count
High	0	Medium	1
Low	0	Informational	0
Undetermined	0		

CATEGORY BREAKDOWN

Category	Count
Authentication	1

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Project Goals The engagement was scoped to provide a security assessment of the Nomic system. Specifically, we sought to answer the following non-exhaustive list of questions: • Are there any vectors that can lead to a loss or theft of funds from the system? • Are there DoS attack vectors that could halt the blockchain? • Are third-party protocols such as IBC and Tendermint ABCI integrated correctly? • Do the arithmetic calculations in the system account for potential overflows, precision loss, and/or division by zero? • Do the generated Bitcoin scripts sufficiently enforce access controls and timelocks? • Does the emergency recovery flow ensure the correct dispersal of funds when the network halts? HashEye 7 Nomic Security Assessment PUBLIC

Project Targets The engagement involved a review and testing of the targets listed below.

nomic Repository	https://github.com/nomic-io/nomic	Version	809092f	Type	Rust	Platform	Linux, macOS, Windows
nomic-bitcoin-js Repository	https://github.com/nomic-io/nomic-bitcoin-js	Version	9d8a5d0	Type	TypeScript	Platform	Linux, macOS, Windows

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Project Coverage This section provides an overview of the analysis coverage of the review, as determined by our high-level engagement goals. Our approaches included the following: • nomic . Nomic is a decentralized custody blockchain that supports the deposit, transfer, and withdrawal of BTC. The blockchain mints nBTC that is backed 1:1 by BTC. Nomic also supports transfers to IBC-compatible chains and EVM-based chains. We performed a manual investigation of this system as follows: ◦ We reviewed incoming BTC deposits to the bridge, and whether it is possible to replay deposits or spoof a deposit by providing an invalid proof. ◦ We reviewed outgoing nBTC withdrawals, and whether it is possible to steal funds from the system or replay a withdrawal. ◦ We reviewed the transfers of nBTC to native accounts and any IBC-compatible chain to identify whether it can lead to a theft of funds or the locking of funds due to a logic error. ◦ We reviewed whether it is possible to launch a DoS attack by triggering a panic or bypassing transaction fees. ◦ We reviewed the checkpointing logic to assess whether all incoming deposits, withdrawals, and transfers are correctly accounted for; to identify any arithmetic concerns related to miner fees and fee adjustments; and to determine if the requisite state updates are made to the current Building and Signing checkpoints and if the total reserve output is calculated correctly. ◦ We reviewed the emergency disbursement logic to assess whether all funds in the reserve output are accounted for in the outputs to the various nBTC holders (including funds escrowed by IBC or held in Ethereum). ◦ We reviewed the Ethereum smart contract bridge and the associated logic in Nomic to assess whether a malicious actor can steal funds by updating the validator set or spoofing a transfer. ◦ We reviewed the IBC-related logic to assess whether funds are correctly (un)escrowed and minted/burned. ◦ We reviewed the BTC light client and the relayer logic to determine general correctness and resilience against chain reorgs. HashEye 9 Nomic Security Assessment PUBLIC

- nomic-bitcoin . The nomic-bitcoin library is used to generate and broadcast Bitcoin deposit addresses to the relayer network . We performed a manual review of this system and investigated whether the Bitcoin scripts are correctly generated (given a specific signatory set) and whether the IBC destination is calculated correctly. HashEye 10 Nomic Security Assessment PUBLIC

Automated Testing HashEye uses automated techniques to extensively test the security properties of software. We use both open-source static analysis and fuzzing utilities, along with tools developed in house, to perform automated testing of source code and compiled software. Test Harness Configuration We used the following tools in the automated testing phase of this project: Tool Description Semgrep An open-source static analysis tool for finding bugs and enforcing code standards when editing or committing code and during build time Clippy An open-source Rust linter used to catch common mistakes and unidiomatic Rust code Cargo Audit An open-source tool for checking dependencies against the RustSec advisory database HashEye 11 Nomic Security Assessment PUBLIC

Codebase Maturity Evaluation HashEye uses a traffic-light protocol to provide each client with a clear understanding of the areas in which its codebase is mature, immature, or underdeveloped. Deficiencies identified here often stem from root causes within the software development life cycle that should be addressed through standardization measures (e.g., the use of common libraries, functions, or frameworks) or training and awareness programs. Category Summary Result Arithmetic The arithmetic calculations performed across the various targets are of generally high quality. We did not find any issues related to arithmetic overflows, division by zero, or precision loss. It is important to note that overflow checks are turned on in production, which could result in panics in case of an overflow. Strong Auditing There is sufficient logging throughout the system. All ABCI methods emit the expected events, and there is sufficient use of logging to alert on unexpected behavior. Satisfactory Authentication / Access Controls We did not identify any attack vectors that could lead to an access control bypass. The critical code paths have sufficient data validation to ensure that only the authorized actors can perform the actions. Strong Complexity Management The Nomic blockchain has a complex architecture with a large number of components. Code duplication is minimal and Nomic makes strong use of abstractions, but many modules do not have any top-level documentation and most functions are undocumented. Moderate Configuration The system is configured to have a variety of stopgaps to prevent unexpected behavior. For example, the blockchain is resilient to potential blockchain reorgs by requiring a certain number of blocks to be mined before the deposit is accepted as valid. Similarly, there are stopgaps to deter unexpected behavior during checkpointing, withdrawals, signing, and emergency disbursements. Strong Cryptography We did not identify any instances of misused Moderate HashEye 12 Nomic Security Assessment PUBLIC

and Key Management cryptographic primitives that would cause undefined behavior or trigger an edge case in the state machine. However, we did identify one instance of output collision that could be triggered by a malicious relayer (TOB-NOMIC-1). Data Handling The data validation within the system is generally of high quality. Function inputs are sufficiently validated, and we identified no edge cases in the serialization and deserialization of custom types. Satisfactory Decentralization The Nomic blockchain is fully decentralized. No single actor can pause the chain or put user funds at risk. The emergency disbursement process is a powerful stopgap that ensures that user funds can be redeemed if the Nomic blockchain fails to make forward progress. Additionally, user funds transferred to an IBC-supported chain or Ethereum can be redeemed in case of an emergency disbursement. Strong Documentation The provided documentation was sufficient to reason through the most critical aspects of the system. The inline comments were thorough in some portions of the codebase but lacking in others (e.g., IBC-related components or emergency disbursements). Moderate Memory Safety and Error Handling The Nomic codebase does not use any unsafe functionality. Satisfactory Testing and Verification The system has unit and end-to-end tests for most flows. However, testing could be improved by including more negative/adversarial test cases. Satisfactory Transaction Ordering We did not identify any issues related to front-running or transaction ordering risks. Strong HashEye 13 Nomic Security Assessment PUBLIC

Summary of Findings The table below summarizes the findings of the review, including type and severity details. ID Title Type Severity 1 Potential output commitment collision Authentication Medium HashEye 14 Nomic Security Assessment PUBLIC

Detailed Findings 1. Potential output commitment collision Severity: Medium Difficulty: Medium Type: Authentication Finding ID: TOB-NOMIC-1 Target: nomic/src/app.rs Description Deposits to the Nomic sidechain from Bitcoin accounts include a commitment to a destination, indicating where the sidechain funds should be sent. Due to a lack of domain separation, a malicious relayer could cause deposited funds to be redirected to an ETH account rather than a Nomic native sidechain account. Figure 7.1 shows the commitment formats for each type of account: pub fn commitment_bytes (& self) → Result < Vec < u8 >> { use sha2::{Digest, Sha256}; use Dest::*; let bytes = match self { NativeAccount(addr) ⇒ addr.bytes().into(), Ibc(dest) ⇒ Sha256::digest(dest.encode()).to_vec(),

Fee $\Rightarrow$ vec! [1], EthAccount(addr) $\Rightarrow$ addr.bytes().into(), EthCall(call, addr) $\Rightarrow$ Sha256::digest((call.clone(), *addr).encode())?.to_vec(), }; Ok (bytes) } Figure 1.1: Commitments for NativeAccount and EthAccount use the same 20-byte format (nomic/src/app.rs#1153-1165) The NativeAccount and EthAccount destinations both use arbitrary 20-byte strings, while the Ibc and EthCall formats use Sha256 digests of arbitrary-length data. A malicious relayer could process a deposit using an EthAccount rather than the depositor's NativeAccount , in which case the deposited funds would be burned. Note that the client had already addressed this issue before the start of the review, but the updated code was not included in the commit under review. HashEye 15 Nomic Security Assessment PUBLIC

Exploit Scenario A malicious relayer wants to harm depositors or the network's reputation. She relays all incoming native deposits as EthAccount deposits, causing the deposited funds to be sent to an Ethereum account for which nobody holds the private key. Recommendations Short term, serialize all commitments using unique prefixes to indicate what type of deposit the commitment is for. Long term, document the formats of all commitments and message hashing schemes for signatures. Ensure that commitments and message encodings are injective by providing a decoding routine that can be used in unit testing. HashEye 16 Nomic Security Assessment PUBLIC

A. Vulnerability Categories The following tables describe the vulnerability categories, severity levels, and difficulty levels used in this document. Vulnerability Categories Category Description Access Controls Insufficient authorization or assessment of rights Auditing and Logging Insufficient auditing of actions or logging of problems Authentication Improper identification of users Configuration Misconfigured servers, devices, or software components Cryptography A breach of system confidentiality or integrity Data Exposure Exposure of sensitive information Data Validation Improper reliance on the structure or values of data Denial of Service A system failure with an availability impact Error Reporting Insecure or insufficient reporting of error conditions Patching Use of an outdated software package or library Session Management Improper identification of authenticated users Testing Insufficient test methodology or test coverage Timing Race conditions or other order-of-operations flaws Undefined Behavior Undefined behavior triggered within the system HashEye 17 Nomic Security Assessment PUBLIC

Severity Levels Severity Description Informational The issue does not pose an immediate risk but is relevant to security best practices. Undetermined The extent of the risk was not determined during this engagement. Low The risk is small or is not one the client has indicated is important. Medium User information is at risk; exploitation could pose reputational, legal, or moderate financial risks. High The flaw could affect numerous users and have serious reputational, legal, or financial implications. Difficulty Levels Difficulty Description Undetermined The difficulty of exploitation was not determined during this engagement. Low The flaw is well known; public tools for its exploitation exist or can be scripted. Medium An attacker must write an exploit or will need in-depth knowledge of the system. High An attacker must have privileged access to the system, may need to know complex technical details, or must discover other weaknesses to exploit this issue. HashEye 18 Nomic Security Assessment PUBLIC

B. Code Maturity Categories The following tables describe the code maturity categories and rating criteria used in this document. Code Maturity Categories Category Description Arithmetic The proper use of mathematical operations and semantics Auditing The use of event auditing and logging to support monitoring Authentication / Access Controls The use of robust access controls to handle identification and authorization and to ensure safe interactions with the system Complexity Management The presence of clear structures designed to manage system complexity, including the separation of system logic into clearly defined functions Configuration The configuration of system components in accordance with best practices Cryptography and Key Management The safe use of cryptographic primitives and functions, along with the presence of robust mechanisms for key generation and distribution Data Handling The safe handling of user inputs and data processed by the system Decentralization The presence of a decentralized governance structure for mitigating insider threats and managing risks posed by contract upgrades Documentation The presence of comprehensive and readable codebase documentation Memory Safety and Error Handling The presence of memory safety and robust error-handling mechanisms Testing and Verification The presence of robust testing procedures (e.g., unit tests, integration tests, and verification methods) and sufficient test coverage Transaction Ordering The system's resistance to transaction-ordering attacks Rating Criteria Rating Description Strong No issues were found, and the system exceeds industry standards. HashEye 19 Nomic Security Assessment PUBLIC

Satisfactory Minor issues were found, but the system is compliant with best practices. Moderate Some issues that may affect system safety were found. Weak Many issues that affect system safety were found. Missing A required component is missing, significantly affecting system safety. Not Applicable The category is not applicable to this review. Not Considered The category was not

considered in this review. Further Investigation Required Further investigation is required to reach a meaningful conclusion. HashEye 20 Nomic Security Assessment PUBLIC

C. System Invariants Below is a non-exhaustive list of invariants that we identified during the course of the audit. Note that these invariants can be written programmatically such that they can be tested using a variety of testing methodologies. Checkpointing Invariants • There can be only one checkpoint in the Building and/or Signing state. • There can be up to `max_unconfirmed_checkpoints` checkpoints in the Completed state. • The fee pool must always have enough funds to pay for all checkpointing fees (i.e., it should never underflow). • All pending deposits, withdrawals, and transfers (regardless of destination) must be added to the Building checkpoint. • The number of inputs in a checkpoint must be less than or equal to the `config.max_inputs`. • The number of outputs in a checkpoint must be less than or equal to the `config.max_outputs`. • The first output of a checkpoint transaction is the current reserve balance. • The second output of a checkpoint transaction is the state commitment. • The emergency disbursement outputs must account for all funds within the reserve output (excluding fees and escrowed funds on IBC chains). • No additional inputs/outputs must be added to a checkpoint that is in a Signing state. • Only checkpoints that are in a Signing state can be signed by signatories. • If a checkpoint is in a Signing state, there must also be a checkpoint in a Building state. HashEye 21 Nomic Security Assessment PUBLIC

D. Non-Security-Related Findings The following recommendation is not associated with specific vulnerabilities. However, it enhances code readability and may prevent the introduction of vulnerabilities in the future. • Update the key comparison in `store-diff.rs`. Currently, the key `a` is being compared to itself. Instead, the snippet highlighted in figure D.5 should be `iter_b.key().unwrap() . let key_a = iter_a.key().unwrap(); let key_b = iter_b.key().unwrap(); if key_a != key_b { panic! ( "keys differ. a: {:?}, b: {:?}", key_a, key_b) }` Figure D.1: `nomic/src/bin/store-diff.rs#66-70` HashEye 22 Nomic Security Assessment PUBLIC

E. Automated Testing Semgrep We performed static analysis on the Nomic source code using Semgrep to identify common weaknesses. We used several rulesets, some of which are private. To run a publicly available subset of the rules, execute the commands shown in figure D.1. Note that these rulesets will output repeated results, which should be ignored. `semgrep --metrics=off --sarif --config= "p/rust" semgrep --metrics=off --sarif --config= "p/hashey"` semgrep scan --pro --sarif Figure E.1: Commands used to run Semgrep Clippy We use `cargo clippy` with “pedantic” lints to check for areas of interest in our investigation. To replicate this set of lints, you can use the command shown in figure E.2 `cargo clippy --no-deps --message-format=json -- -W clippy::pedantic | clippy-sarif > clippy_pedantic.sarif` Figure E.2: Commands used to run Clippy Cargo Audit We use `cargo audit` to check for known-vulnerable dependencies. `cargo install cargo-audit cargo audit` Figure E.3: Commands used to install and run cargo-audit HashEye 23 Nomic Security Assessment PUBLIC

F. Fix Review Results When undertaking a fix review, HashEye reviews the fixes implemented for issues identified in the original report. This work involves a review of specific areas of the source code and system configuration, not a comprehensive analysis of the system. On October 18, 2024, HashEye reviewed the fixes and mitigations implemented by the client for the issue identified in this report. We reviewed the fix to determine its effectiveness in resolving the associated issue. In summary, the client has resolved the one issue in this report. For additional information, please see the Detailed Fix Review Results below. ID Title Status 1 Potential output commitment collision Resolved Detailed Fix Review Results TOB-NOMIC-1: Potential output commitment collision Resolved in commit 58a3bcd . The destination commitment is computed from the encoded encoding of the address, which includes a prefix byte that disambiguates the destination types. The client had already made this fix to the codebase before the start of the review, but it was not included in the commit under review. HashEye 24 Nomic Security Assessment PUBLIC

G. Fix Review Status Categories The following table describes the statuses used to indicate whether an issue has been sufficiently addressed. Fix Status Status Description Undetermined The status of the issue was not determined during this engagement. Unresolved The issue persists and has not been resolved. Partially Resolved The issue persists but has been partially resolved. Resolved The issue has been sufficiently resolved. HashEye 25 Nomic Security Assessment PUBLIC