Risk Disclosure Statement

Engaging in virtual asset activities involves significant risks. XBase Virtual Assets Broker & Dealer Services LLC (XBase Digital DED) provides this disclosure in alignment with the Dubai Virtual Assets Regulatory Authority (VARA) to help clients understand the potential risks associated with investing, trading, or transacting in virtual assets. These risks may lead to substantial or total loss of value and may not be suitable for all individuals.

This Risk Disclosure Statement forms an integral part of our Term of Business of XBase Virtual Assets Broker & Dealer Services LLC (XBase Digital DED). Capitalised terms not defined in this Risk Disclosure Statement have the meanings provided in the Terms of Business. By using our Services, you acknowledge and agree with the following:

Trading and investing in virtual assets is inherently risky and may result in financial loss. It is important that you fully understand the risks involved with virtual asset trading and investing before deciding to execute any virtual asset trades. This Risk Disclosure Statement is not a complete statement of all risks involved in virtual asset trading. It is your responsibility to educate yourself as to all risks applicable to virtual asset trading and investing. Virtual asset trading and investing involves risk to your capital, including the risk that the entire amount invested may be lost. You should always ensure that you have adequate financial resources to bear the risks involved in virtual asset trading and investing and that you monitor your positions carefully. You should not invest, trade or risk money or value that you cannot afford to lose.

This risk disclosure statement cannot and does not disclose all risks and other aspects involved in holding and trading virtual assets, but sets out some of the principal risks involved with virtual asset trading and investing:

Volatility and Loss of Value

Virtual assets are inherently speculative and subject to extreme price volatility, which may result in significant financial losses. Unlike traditional financial instruments that may be backed by underlying assets, regulated exchanges, or central banks, the value of virtual assets is largely determined by market perception, demand, and speculative trading activity.

The price of a virtual asset may fluctuate rapidly and unpredictably over short periods of time—sometimes within minutes or hours—leading to substantial gains or losses. These price swings can be triggered or influenced by a range of interconnected factors, including but not limited to:

- Market Dynamics: Sudden shifts in trading volume, liquidity, or market dominance can cause abrupt changes in asset valuations.
- Investor Sentiment: News cycles, social media influence, public commentary by influential individuals, or online speculation can fuel price surges or sell-offs.
- Regulatory Announcements: Regulatory crackdowns, legal restrictions, tax rulings, or changes in classification (e.g., designating an asset as a security) can dramatically affect an asset's price or legality within specific jurisdictions.
- Macroeconomic Events: Broader financial trends—such as interest rate changes, inflationary pressures, or geopolitical instability—can impact investor behavior and capital flows into or out of digital assets.
- Technological Developments: Forks, protocol upgrades, security vulnerabilities, or failures in the underlying blockchain network may erode confidence and contribute to sudden devaluations.
- Project-Specific Issues: Problems such as delays in development, abandonment by the team, fraud allegations, or breaches of governance can severely affect the value of a specific virtual asset.

Importantly, there is no guarantee that any virtual asset will maintain or appreciate in value over time. In many cases, the value of a virtual asset may decline substantially, become illiquid, or drop to zero, resulting in a total loss of the initial investment. This is particularly relevant for newly issued, thinly traded, or low-cap tokens, which may be more susceptible to manipulation, pump-and-dump schemes, or rug pulls.

Transferability and Irreversibility

Virtual asset transactions are executed and recorded using Distributed Ledger Technology (DLT), such as blockchain networks. While this technology enables secure, transparent, and efficient peer-to-peer transfers, it also introduces critical limitations regarding the finality and reversibility of transactions.

Once a transaction is confirmed on the relevant blockchain or DLT protocol, it is generally permanent and irreversible. This means that even if a transaction is executed in error—such as sending assets to the wrong wallet address, inputting the incorrect amount, or being the victim of an unauthorized or fraudulent transfer—the transaction cannot be amended, reversed, or recalled by the sender, recipient, network operator, or any service provider. There is no central authority to intervene or recover assets in such cases.

It is the sole responsibility of the user to:

- Ensure the accuracy of wallet addresses, especially when copying and pasting or scanning QR codes;
- Verify the correctness of transaction details, including the type and amount of virtual assets to be transferred;
- Confirm that the destination platform or service supports the specific virtual asset and its blockchain network;

- Take necessary precautions to secure private keys, access credentials, and wallet controls, as unauthorized access may result in the irrevocable loss of assets.

Failure to follow these due diligence measures can result in the permanent loss of virtual assets, without any available legal, technical, or regulatory means of recovery.

Transfer Restrictions

In addition to risks related to human error and technical finality, users should also be aware of transferability constraints that may apply to certain virtual assets:

- Legal or Regulatory Restrictions: Some assets may be subject to transfer bans, licensing requirements, or jurisdictional restrictions (e.g. sanctions, securities laws, or cross-border limitations).
- Smart Contract Limitations: Certain tokens include built-in transfer restrictions coded within their smart contracts, which may restrict transfers to whitelisted addresses or enforce lock-up periods.
- Platform-Imposed Controls: Centralized platforms, custodians, or wallet providers may impose restrictions or delays on the transfer of virtual assets due to compliance checks, technical maintenance, or dispute resolution procedures.
- Network Congestion or Protocol Risks: High transaction volumes or failures in the underlying DLT infrastructure may delay transfers or increase transaction fees unpredictably.

Over-the-counter-transactions

The Transactions you enter with us will be over-the-counter transactions and therefore will be off exchange. There are different levels of liquidity in the over-the-counter markets for specific instruments, and while some markets are highly liquid, transactions in off-exchange, over-the-counter transactions may involve greater risk than investing in on-exchange transactions due to low liquidity as there is no exchange market on which to close out an open position. It may be difficult and, in some cases, impossible to liquidate in full or in part an existing position or assess the value of the position arising from an off-exchange transaction or to assess the exposure to risk associated with holding or liquidating the position. In over-the-counter markets, offer and bid prices need not be quoted, and even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what is a fair price or valuation for a specific instrument.

Liquidity Risks

Not all virtual assets benefit from active trading markets. Limited market participation, low trading volumes, or market disruptions may result in an inability to sell or exchange assets in a timely manner or at an expected price. In illiquid markets, sudden withdrawals or sell-offs may further depress prices, amplifying losses. Investors must understand that liquidity conditions can shift rapidly and may vary widely across different virtual assets.

Transparency and Privacy

While many virtual asset networks promote transparency through public and immutable transaction records, this transparency often comes at the cost of privacy. Third parties may be able to trace transaction histories or associate wallet addresses with individuals. While some virtual assets include privacy-enhancing features, these are not foolproof and may be limited by technological, regulatory, or forensic advancements.

Settlement Risk

Settlement of virtual asset transactions may not follow traditional timelines and could be delayed due to network congestion, protocol failures, or third-party service issues. There is also a risk that counterparties may fail to deliver the corresponding asset or payment, leading to settlement default or loss.

Security, Fraud, and Legal Risks

Virtual assets and the platforms that support them are exposed to a wide range of threats, including cyberattacks, hacking, phishing schemes, smart contract vulnerabilities, and other targeted schemes. Wallets, exchanges, and custodial solutions may be subject to fraud, manipulation, and theft, potentially resulting in the loss of digital assets. These platforms may not benefit from the same legal protections afforded to traditional financial products or insured bank deposits. Consequently, in the event of technical failure, fraud, or other adverse events, users may have limited legal recourse and may incur substantial losses.

Technological and Operational Risks

Virtual asset systems rely on complex, evolving technologies that may contain undiscovered vulnerabilities or bugs. Delays in network processing, forks in the blockchain, or flaws in smart contracts could lead to transaction failures or losses. Operational risks may also arise from software malfunctions, infrastructure outages, or dependence on third-party service providers whose systems may be outside the user's control.

Counterparty Risks

Users may interact with third-party service providers such as exchanges, custodians, or liquidity providers. The financial stability, compliance posture, or operational integrity of these entities may significantly impact a user's ability to access, transfer, or recover virtual assets. Insolvency, mismanagement, or regulatory sanctions against these counterparties may result in partial or total asset loss.

Regulatory and Legal Uncertainty

The regulatory treatment of virtual assets continues to evolve across jurisdictions. Sudden changes in laws, enforcement actions, or new regulatory requirements could adversely impact the availability, use, or legality of certain virtual assets. Restrictions may include outright bans, changes in tax treatment, or mandatory reporting obligations. Users are responsible for staying informed of applicable laws and ensuring ongoing compliance.

Market Conduct and Manipulation Risks

Virtual asset markets are less regulated than traditional financial markets and may be susceptible to manipulation, insider trading, and other unethical practices. Low oversight and the presence of unregulated actors can create an uneven playing field, increasing the risk for retail participants.

Transparency and Privacy Risk

Most virtual asset transactions are recorded publicly on blockchains, which can reduce user privacy. While some assets offer privacy features, these are not always effective or guaranteed and may be overridden by regulatory or forensic tools. Users should not assume anonymity or confidentiality.

Legal Disclaimer

This risk disclosure is provided for informational purposes only and does not constitute financial, legal, or investment advice. Individuals are encouraged to seek guidance from qualified professionals before engaging in any virtual asset activity. By participating in virtual asset transactions or services offered by XBase Virtual Assets Broker & Dealer Services LLC (XBase Digital DED), users acknowledge and accept the full scope of risks involved and bear sole responsibility for any resulting financial losses.