FalconX Bravo, Inc.
Financial Statement
December 31, 2023

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Report of Independent Auditors

To Management and the Board of Directors of FalconX Bravo, Inc.

Opinion on the Financial Statement

We have audited the statement of financial condition of FalconX Bravo, Inc. (the Company) as of December 31, 2023, and the related notes to the financial statement (the "financial statement"). In our opinion, the accompanying financial statement presents fairly, in all material respects, the statement of financial condition of the Company at December 31, 2023 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that is free of material misstatement, whether due to fraud or error.

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statement is available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst + Young LLP

February 27, 2024

FalconX Bravo, Inc.

Statement of Financial Condition

		December 31, 2023
ASSETS		
Assets		
Cash and cash equivalents	$	26,821,109
Accrued interest receivable & prepaid expense		121,034
Margin receivable		427,526
Derivative assets		232,758
Total assets	**$**	**27,602,427**
LIABILITIES AND STOCKHOLDER'S EQUITY		
Liabilities		
Due to affiliates	$	1,018,509
Accounts payable and accrued liabilities		262,985
Derivative liabilities		232,758
Total liabilities	**$**	**1,514,252**
Equity		
Common stock, $0.01 par value, 100,000 shares authorized, 100,000 shares issued and outstanding	$	1,000
Additional paid-in capital		29,998,701
Accumulated deficit		(3,911,526)
Total stockholder's equity	**$**	**26,088,175**
Total liabilities and stockholder's equity	**$**	**27,602,427**

The accompanying notes are an integral part of the financial statement

FalconX Bravo, Inc.
Notes to Financial Statement

1. Nature of Business

FalconX Bravo, Inc. (“FalconX Bravo”, “the Company”), a Delaware corporation located in San Mateo, California, was incorporated on August 31, 2021. The Company is a wholly owned direct subsidiary of FalconX Alpha, Inc. (“FalconX Alpha”, “the Parent”), a non-operating holding company, and a wholly owned indirect subsidiary of FalconX Holdings Limited, a Cayman Islands Exempted company (“FalconX Holdings”), which operates as a holding company for a group of subsidiaries through which cryptocurrency prime brokerage services are offered to institutional counterparties (“Clients”).

The Company was created for the purpose of acting as a Commodity Futures Trading Commission (“CFTC”) registered Swap Dealer. In April of 2022, the Company received provisional approval by the CFTC to act as a Swap Dealer and is a registered National Futures Association (“NFA”) member. The Company is in the process of onboarding institutional clients to trade over-the-counter (“OTC”) digital asset derivatives.

2. Significant Accounting Policies

Basis of Presentation:

The accompanying financial statement has been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and includes the accounts of the Company. The Company’s functional base currency is the U.S. dollar.

Use of Estimates:

The preparation of the financial statement requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and other disclosures. Estimates include the realization of a deferred tax asset and valuation of derivatives. Actual results could differ from such estimates included in the financial statement.

Cash and Cash Equivalents:

The Company considers all highly liquid investments purchased with a maturity of three months or less at the date of purchase to be cash equivalents. As of December 31, 2023, cash and cash equivalents consist of cash on deposit with two financial institutions. The Company also has cash equivalents in the form of money market funds with one of the financial institutions in the amount of $26,137,631 as of December 31, 2023. This money market fund (Treasury trust fund) invests exclusively in US Government backed Treasury Bills.

See Note 6: Derivatives for the related significant accounting policy.

Fair Value Measurements:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820 "Fair Value Measurements" established a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company.

Unobservable inputs are inputs that reflect the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 – Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined based on an internally developed valuation model in which the determination of fair value requires significant management judgment or estimation.

As of December 31, 2023, the Company held cash equivalents consisting of money market mutual funds, which are valued at the closing price reported by the fund sponsor from an actively traded exchange and are categorized as Level 1 in the fair value hierarchy.

Derivatives are valued using quoted prices for similar assets from an active market and other non-significant observable inputs. Thus, derivatives are categorized as Level 2 in the fair value hierarchy.

FalconX Bravo, Inc.
Notes to Financial Statement

The following table presents the fair value hierarchy of our financial assets and liabilities carried at fair value on our Statement of Financial Condition on a recurring basis as of December 31, 2023:

	Level 1	Level 2	Level 3
Cash equivalent	26,137,631	-	-
Derivative assets	-	232,758	-
Derivative liabilities	-	232,758	-

Concentration of Credit Risk:

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash and cash equivalents. As of December 31, 2023, the Company maintained the majority of its cash and cash equivalent deposits at an account with a large New York based investment bank that serves clients operating in the financial technology and cryptocurrency industries. Cash and cash equivalent deposits exceeded the FDIC insurable limit for corporations of $250,000 by $433,478 as of December 31, 2023. The Company has not experienced any losses on its bank deposits through December 31, 2023. The money market fund account is not FDIC insured.

Margin Receivable & Due to Affiliates:

Due to affiliates represent amounts due to affiliated entities within the FalconX Holdings Group while Margin receivable represents amounts due from an affiliated entity within the FalconX Holdings Group. The transactions associated with these receivables and payables are discussed in the "Note 3: Related Party Transactions" footnote.

Income Taxes:

The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the deferred tax asset or liability are expected to be realized. The Company recognizes valuation allowances on deferred tax assets if it is more likely than not that some or all of the deferred tax assets will not be realized. In evaluating the Company's ability to recover deferred tax assets, the Company's management considers all available evidence, both positive and negative, including historical operating results, ongoing tax planning, and forecasts of future taxable income on jurisdiction-by-jurisdiction basis. A valuation allowance is provided against the Company's deferred income tax assets to the extent that it is more likely than not to be realized. The Company will file federal, state and local income tax returns on a stand-alone basis.

Risks and Uncertainties:

FalconX Bravo, Inc. is subject to counterparty credit risk related to its cryptocurrency derivative trading activities and demand for its swap offerings.

Accrued Interest Receivable:

At the end of December 31, 2023, the Company has accrued for interest income receivable on funds held at an interest bearing account at a regional bank.

Recently Adopted Accounting Pronouncements:

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13 under Topic 326 altering the measurement of credit losses for certain financial assets. This guidance requires an entity to estimate its expected credit loss and record an allowance based on this estimate so that it is presented at the net amount expected to be collected on the financial asset. We adopted this standard and related amendments as of January 1, 2023, and it did not have a material impact on our financial statement.

3. Related Party Transactions

Related party transactions include any transaction between entities under common control or with a related party. The Company entered into the following related party transactions during the year ended December 31, 2023.

Due to Affiliates:

Certain administrative activities, such as the accounts payable function, are performed by an affiliate entity within the FalconX Holdings Group. Payments to vendors for the majority of services received by FalconX Bravo were disbursed by Warp Drive, Inc. ("Warp Drive"), an entity under common control of the ultimate parent, FalconX Holdings Limited, with the Company recording an intercompany payable. Costs for the Company are being paid out of Warp Drive and a corresponding intercompany payable is recorded at the Company. The Company has $588,142 intercompany payable to Warp Drive Inc. as a result of the disbursements processed for the year ended December 31, 2023.

Test Trades with Affiliate Entities:

During the year of 2023, we initiated a series of options and non-deliverables forwards (NDF) transactions with Solios Inc & FalconX Labs Inc, two of our affiliate entities. This initiative was strategically designed to rigorously test our trading systems & procedural protocols before launching services to external clients. Open trades with FalconX Labs Inc are presented as the $232,758 Derivative asset on the Statement of Financial Condition as of December 31, 2023.

FalconX Bravo, Inc.
Notes to Financial Statement

4. Capital Stock

The Company was authorized to issue 100,000 shares of common stock with a par value of $0.01 per share via Unanimous Written Consent of the Board of Directors on August 31, 2021, of which all shares were issued, subscribed and fully paid for as of December 31, 2023. The only holder of common stock is FalconX Alpha, Inc, which holds 100% voting rights.

5. Capital Requirements

As a registered Swap Dealer, the Company is subject to minimum capital requirements in accordance with CFTC § 23.101 and NFA Section 18 and must be able to demonstrate such compliance to the CFTC and NFA.

The Company has chosen to use the "Bank Holding Company (BHC) Approach", and thus, elected to be subject to the minimum capital requirements set forth in CFTC § 23.101(a)(i).

The Company does not use models for market or credit risk charges so it's capital at all times must equal or exceed the maximum of the following:

1. Common equity tier 1 capital of $20 million, as if the Firm itself were a BHC;
2. An aggregate of common equity tier 1 capital, additional tier 1 capital, and tier 2 capital, all as defined under the BHC regulations in 12 CFR 217.20, equal to or greater than 8% of the swap dealer's BHC equivalent risk-weighted assets; provided, however, that the swap dealer must maintain a minimum of common equity tier 1 capital equal to 6.5% of its BHC equivalent risk-weighted assets; provided further, that any capital that is subordinated debt under 12 CFR 217.20 and that is included in the swap dealer's capital;
3. Total Capital equal to or greater than 8% of the Firm's Uncleared Swap Margin; and
4. The amount of capital required by the NFA.

The Company did not have any subordinated debt at the start of the year and has not issued any subordinated debt instrument during the year 2023.

In compliance with the NFA and CFTC regulations, a swap dealer must submit an unaudited financial report. For December 2023, there is a reconciling item between the unaudited financial report and audited financial statement related to a $58,875 adjustment for accrued audit fees and bonuses.

The following table summarizes the Company's net capital and net capital requirements as of December 31, 2023.

Net Capital	$26,088,175
Minimum Net Capital Requirement (as per aforementioned rules)	$20,000,000
Excess Net Capital	$6,088,175

6. Derivatives

The Company is at the forefront of trading over-the-counter (OTC) derivatives, with a focus on a diverse array of digital assets, including but not limited to Bitcoin and Ethereum. Trading activities are primarily client-driven, catering to a sophisticated clientele seeking to navigate the complexities of the digital asset market through customized financial instruments.

A pivotal aspect of the operations is a focus on risk mitigation. The Company employs a dual strategy that involves either offloading the risk to third parties or strategically engaging with affiliates. This approach ensures that a balanced portfolio is maintained, minimizing our exposure while optimizing market position.

The Company's operations are primarily centered around fulfilling the trading requirements of our clients, hence it does not constitute economic hedges in the traditional financial sense. Consequently, our transactions are not classified within a hedge accounting framework. This distinction underscores our commitment to providing bespoke trading solutions rather than engaging in the direct management of our own financial risk exposures through economic hedging.

In our financial reporting, we categorize the mark-to-market (MTM) values of options and other derivative instruments. These valuations are recognized as either assets or liabilities on our Statement of Financial Condition, depending on whether they represent a net positive or negative value to the company at the reporting date.

In the inaugural year of trading operations, the portfolio of open trades reached a significant milestone, with the notional value approximately totaling $66,000,000. This figure represents the cumulative value of all derivative positions that remained open at the close of the year. This notional value is indicative of the scale and scope of our trading activities.

A Master Netting Agreement (MNA) allows offsetting obligations in derivatives trading to reduce transactions to a single net payment. However, open positions we have as of year end are not eligible for netting under the MNA.

Open positions as of year-end are reflected on the Statement of Financial Condition as follows:

Derivative Instruments	Derivative Assets	Derivative Liabilities
Options	$232,758	$232,758

7. Income Taxes

The Company recorded a life to date total deferred tax assets of $1,046,601 based on a statutory federal tax rate of 21%, applicable state tax rate of 9.5% and gross Federal and Illinois net operating loss of $3,852,025 and $3,166,904, respectively. The Federal net operating losses can be carried forward indefinitely while the Illinois net operating losses expire beginning in 2042. Based upon limited operations, and lack of stand-alone projections for future profitability, the Company's management believes it is more likely than not that the Company will not realize the benefits of its deductible temporary differences as of December 31, 2023. As such, a full valuation allowance of $1,046,601 has been maintained against the current year deferred tax asset balance, an increase of $544,132 from prior year valuation allowance recorded. The Company's U.S. tax filings from 2021 forward remain subject to tax examinations.

8. Subsequent Events

Management of the Company has evaluated subsequent events through February 27, 2024, which is also the date the financial statement was available to be issued. No subsequent events were identified during this evaluation that required recognition or disclosure in the notes to the financial statement.