

**PASACA INSURANCE COMPANY
LTD. INCORPORATED IN
BERMUDA**

FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of
Pasaca Insurance Company Ltd.

Opinion

We have audited the financial statements of Pasaca Insurance Company Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income and comprehensive income, stockholders' equity, and cash flows, for the years then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended 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 Statements 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 Statements

Management is responsible for the preparation and fair presentation of the financial statements 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 statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 a period of one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from 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 statements.

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 statements, 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 statements.
- 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 statements.
- 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.

Required Supplementary Information

Management has omitted disclosure of short-duration contracts that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Deloitte LLP
April 30, 2024

PASACA INSURANCE COMPANY LTD.

BALANCE SHEETS

DECEMBER 31, 2023 AND 2022

(Expressed in U.S. dollars)

ASSETS	2023	2022
	\$	\$
Cash and cash equivalents (note 4)	8,386,326	9,974,793
Accrued interest (note 4)	44,630	-
Other assets	55,645	-
Insurance balances receivable	88,000	-
Deposits receivable	26,127	-
Prepaid expenses	57,969	-
Tax receivable (note 5)	368,915	125,596
Right-of-use assets – operating leases (note 6)	129,789	-
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	9,157,401	10,100,389
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LIABILITIES AND SHAREHOLDER'S EQUITY		
LIABILITIES		
Lease liabilities – operating leases (note 6)	129,789	-
Unearned premium reserve	134,844	276,953
Accounts payable and accrued expenses	215,477	149,154
Amount due to affiliate (note 10)	-	146,765
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	480,110	572,872
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SHAREHOLDER'S EQUITY		
Share capital (note 8)	120,000	120,000
Contributed surplus (note 8)	9,880,000	9,880,000
Retained earnings	(1,322,709)	(472,483)
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	8,677,291	9,527,517
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	9,157,401	10,100,389
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Approved by the Board:

Director:

Luke Liu

Director:

David Sykes

PASACA INSURANCE COMPANY LTD.

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

(Expressed in U.S. dollars)

	2023 \$	2022 \$
UNDERWRITING REVENUES		
Direct premiums written	184,000	388,800
Change in unearned premiums	142,110	(276,953)
Total Underwriting Premium	<u>326,110</u>	<u>111,847</u>
UNDERWRITING EXPENSES	(7,500)	-
NET UNDERWRITING INCOME	318,610	111,847
NET INVESTMENT INCOME (note 4)	116,754	-
OTHER INCOME/(EXPENSES)	-	-
GENERAL AND ADMINISTRATIVE EXPENSES		
Personnel cost	(816,486)	(341,864)
Other operating expenses	(695,114)	(368,062)
Total General and Administrative Expenses	<u>(1,511,600)</u>	<u>(709,926)</u>
NET LOSS BEFORE INCOME TAXES	(1,076,236)	(598,079)
INCOME TAX BENEFIT (note 5)	226,010	125,596
NET LOSS	<u>(850,226)</u>	<u>(472,483)</u>

PASACA INSURANCE COMPANY LTD.

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

(Expressed in U.S. dollars)

	Share Capital	Additional Paid-In Capital	Retained Earnings	Total
	\$	\$	\$	\$
Capital contributions	120,000	9,880,000	-	10,000,000
Net loss	-	-	(472,483)	(472,483)
Balance at December 31, 2022	120,000	9,880,000	(472,483)	9,527,517
Net loss			(850,226)	(850,226)
Balance at December 31, 2023	120,000	9,880,000	(1,322,709)	8,677,291

PASACA INSURANCE COMPANY LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

(Expressed in U.S. dollars)

CASH AND CASH EQUIVALENTS PROVIDED BY (USED FOR):	2023	2022
	\$	\$
OPERATING ACTIVITIES		
Net loss	(850,226)	(472,483)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Change in operational balance sheet items:		
Insurance balances receivable	(88,000)	-
Accrued interest	(44,630)	-
Right-of-use assets – operating leases	(129,789)	-
Unearned premium reserve	(142,109)	276,953
Tax receivable	(243,319)	(125,596)
Prepaid expenses	(57,969)	-
Amount due to affiliate	(146,765)	146,765
Accounts payable and accrued expenses	66,323	149,154
Lease liabilities – operating leases	129,789	-
Other assets	(55,645)	-
Deposit receivable	(26,127)	-
Net cash provided by / (used in) operating activities	(1,588,467)	(25,207)
FINANCING ACTIVITIES		
Net proceeds / (repayments) of capital contributions	-	10,000,000
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,588,467)	9,974,793
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,974,793	-
CASH AND CASH EQUIVALENTS, END OF YEAR	8,386,326	9,974,793

PASACA INSURANCE COMPANY LTD.

NOTES TO THE FINANCIAL STATEMENTS

1. THE COMPANY AND ITS ACTIVITIES

Pasaca Insurance Company Ltd. ("the Company") was incorporated in Bermuda on May 16, 2022 and is licensed as a class 3A general business insurer pursuant to the Bermuda Insurance Act 1978 and Related Regulations.

The Company is 60% owned by Pasaca Capital LLC, which is 100% owned by Dr Charles Huang, a director of the Company. 20% is owned by Integrity Risk Solutions LLC, which is 100% owned by Zhanqi Liu who is also the CEO of Pasaca Insurance Company Ltd and the remaining 20% is owned by Blair Hu who is the COO of Pasaca Insurance Company Ltd. Pasaca Capital LLC is a company organized under the laws of the state of California and is part of the Pasaca Group of companies, which was founded by Dr Huang. Within the Pasaca Group, Dr Huang and his family own a majority stake in Pasaca Capital Inc., which is a private equity firm focused on innovative technologies and products that benefit the world.

Pasaca Insurance Company Ltd. was established as a global insurance solutions provider for the Pasaca Group as well third parties predominantly in the product liability and professional liability lines of business.

At December 31, 2023, the Company has issued two product liability insurance policies, which have a per occurrence and aggregate limit of \$10,000,000 per policy.

2. BASIS OF PREPARATION

(a) Use of estimates

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ materially from those estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the following significant accounting policies:

(a) Cash and cash equivalents

Cash and cash equivalents include deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and which have original maturity dates of three months or less. This includes certificates of deposit, which are purchased with an original maturity date of three months or less.

(b) Property and equipment

Property and equipment are carried at historical cost, less accumulated depreciation and any impairment in value. Depreciation is calculated to write off the cost over the estimated useful economic life on a straight-line basis.

PASACA INSURANCE COMPANY LTD.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Property and equipment (continued)

- Furniture and fittings are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.
- Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property or equipment is derecognized on disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Gains and losses on the disposal of property and equipment are determined by comparing proceeds with the carrying amount of the asset and are included in the Statements of Income and Comprehensive Income. Costs for repairs and maintenance are charged to profit or loss as incurred.

Property and equipment are included in other assets on the Balance Sheets.

(d) Accounts Receivable

Receivables are recognized at amounts receivable less a provision for impairment where necessary, at December 31, 2023 there was no provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. Any increase or decrease in the provision for impairment is recognized in the statements of income and comprehensive income within underwriting expenses.

When a receivable is uncollectible, it is written off against the provision for impairment account. Subsequent recoveries of amounts previously written off are credited against the underwriting expenses in the statements of income and comprehensive income.

(e) Net Investment Income

Interest income for fixed maturity investments is recognized when earned and is accrued to the balance sheet date based on the contractual terms of the fixed maturity investments and is included in "net investment income" in the statements of income and comprehensive income.

Realized gains and losses on the disposal of fixed maturity investments are included in "net investment income" in the statements of income and comprehensive income.

(f) Reserve for losses and loss expenses

The reserve for losses and loss expenses comprises reported losses and loss expense as reported by ceding companies plus a provision for losses incurred but not reported and unallocated loss adjustment expenses. The reserve for losses and loss expenses is based upon management's best estimate of the ultimate cost of settlement of losses, loss adjusters' evaluations and consideration of the recommendations of an independent actuary. Although management believes such provisions to be adequate, there can be no assurance that the ultimate cost of settlement of losses may not vary materially from the estimates recorded in the financial statements. Future adjustments to the amounts recorded resulting from the continual review process as well as differences between estimates and ultimate settlements, will be reflected in the statements of income and comprehensive income when such adjustments become known and are estimable.

PASACA INSURANCE COMPANY LTD.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Premiums

Premiums written are earned and premiums ceded are expensed on a pro rata basis over the terms of the policies. Premiums applicable to future periods are deferred in the accompanying balance sheets.

(h) Leases

The Company determines if an arrangement is a lease or contains a lease at inception of a contract and classifies each lease as an operating or finance lease. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) in exchange for consideration. The Company records a right-of-use ("ROU") asset for the right to use an underlying asset for the lease term and a lease liability, on a discounted basis, for the obligation to make lease payments arising from the lease. The discount rate used is typically the Company's secured borrowing rate, as most of the Company's leases do not provide an implicit rate. The lease term includes options to extend or to terminate the lease that the Company is reasonably certain to exercise. The Company has elected for all classes of underlying assets the practical expedient to not separate lease and non-lease components and account for them as a single lease component. ROU assets are subject to review for impairment.

For operating leases, lease expense relating to fixed payments is recognized on a straight-line basis over the lease term and lease expense relating to variable payments is expensed as incurred.

For finance leases, the amortization of the ROU asset is recognized over the shorter of the lease term or useful life of the underlying asset and interest expense is recorded using the effective interest rate method. The Company has elected as an accounting policy not to record ROU assets and lease liabilities that arise from short-term leases for any class of underlying asset.

(i) Income taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. A valuation allowance is recorded for the amount of deferred income tax assets for which realization is not likely in the near term.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

As at the year ended December 31, 2023, the Company had no deferred tax assets.

When necessary, the Company recognizes interest and penalties associated with tax matters as a component of income tax expense and the related liability as due to related party.

PASACA INSURANCE COMPANY LTD.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

4. CASH AND EQUIVALENTS

As at December 31	<u>2023</u>	<u>2022</u>
	\$	\$
Cash at bank and in hand	1,881,512	9,974,793
Certificate of Deposit "CD"	6,504,814	-
Total	<u>8,386,326</u>	<u>9,974,793</u>

The CD amounts to \$6,504,814 as at December 31, 2023. The CD is held at JPMorgan Chase, bears interest at an annual rate of 4.5%, and has a maturity date of February 5, 2024. Interest income on the CD is recognized in the income statement as it accrues. Interest income of \$116,754 has been recognized in the Statement of Income and Comprehensive Income during the year (2022 - \$Nil) in relation to CDs, which includes accrued interest of \$44,630 (2022 - \$Nil).

The significant concentration in the CD exposes the company to credit risk related to JPMorgan Chase, against which the company takes measures to mitigate by regularly reviewing the bank's creditworthiness.

5. TAXATION

Bermuda

At the present time, no income, profit, capital or capital gain taxes are levied in Bermuda and, accordingly, no provision for such taxes has been recorded by the Company. In the event that such taxes are levied, the Company has received an undertaking from the Bermuda Government exempting it from all such taxes until March 31, 2035.

Organization for Economic Co-operation and Development (OECD) – Global Minimum Tax

On December 20, 2021, countries comprising the Organization for Economic Co-operation and Development ("OECD") GloBE Rules were released with the intention of ensuring that all large multinational groups ("MNE Groups") are subject to an effective tax rate of at least 15% in each jurisdiction in which they operate.

On December 27, 2023, and in response to the OECD GloBE rules, the Government of Bermuda passed the Bermuda Corporate Income tax ("CIT") introducing a 15% corporate income tax for Bermuda businesses that are part of MNE Groups that have consolidated revenue of at least €750 million in at least two of the four preceding fiscal years, subject to certain exemptions. This tax is effective for fiscal years beginning on or after January 1, 2025.

The tax accounting consequences of a change in tax law is required to be recognized in the period legislation is enacted. Generally, a company is also required to consider the impact of new tax law on realizability of its deferred tax assets, including determination of whether a change to their valuation allowance amount is necessary.

The Company expects no impact as a result of this corporate income tax legislation.

PASACA INSURANCE COMPANY LTD.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

5. TAXATION (continued)

United States

The Company is in the process of applying for a section 953(d) directive under the Internal Revenue Service (IRS) tax code to be treated as a United States (US) corporation for US tax purposes. This directive will apply retroactively when it is approved and therefore the Company has recognized a tax benefit of \$368,915 (2022 – \$125,596) in the financial statements based on its estimated taxable loss for the reporting period.

6. LEASES

The company entered into an operating lease with Mercury House Limited for office space in Hamilton, Bermuda with an effective date of April 1, 2023. The first lease payment was due on April 1, 2023 and thereafter the 1st of every month, with the last payment due on April 1, 2026. The lease agreement does not include the option to purchase the office at the end of the lease period and the lease does not meet the criteria to be considered a finance lease.

Balance sheet presentation of lease:	<u>2023</u>	<u>2022</u>
	\$	\$
Right of Use Asset – Operating	<u>129,789</u>	-
<u>Lease Liability</u>		
Operating – Current	56,361	-
Operating – Non-Current	73,428	-
Operating – Total	<u>129,789</u>	-

Lease effects on statements of income and retained earnings:	<u>2023</u>	<u>2022</u>
	\$	\$
<i>Lease Cost</i>		
Amortization of Right of Use Asset	41,914	-
Interest expense	4,074	-
Total	<u>45,988</u>	-

Lease commitments, including below maturity analysis:

	\$
2024	60,000
2025	60,000
2026	15,000
Total remainder	<u>135,000</u>
Interest	<u>(5,211)</u>
Total Lease Liability	<u>129,789</u>

PASACA INSURANCE COMPANY LTD.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

7. RESERVES FOR OUTSTANDING LOSSES AND LOSS RELATED EXPENSES

There was no activity in the reserves for outstanding losses and loss related expenses during the period ended December 31, 2023 (2022 - \$Nil). The Company only wrote two (2022 – one) claims-made products liability policies and there have been no reported claims through the reporting date (2022 - \$Nil).

The Company has not purchased reinsurance.

8. SHARE CAPITAL

The authorized share capital of the Company is \$120,000 divided into 120,000 shares of US\$1.00 each. The minimum subscribed share capital of the Company is \$120,000 fully paid.

Contributed surplus represents cash contributed by the shareholder in excess of the issued share capital. An amount of \$Nil (2022: \$9,880,000) was contributed by the shareholder during 2022, being cash of \$Nil (2022 - \$9,880,000).

9. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in these financial statements are disclosed below.

During the year ended December 31, 2023, the Company Pasaca Capital LLC paid expenses of \$Nil (2022 - \$146,765) on behalf of the company for formation expenses.

10. SUBSEQUENT EVENTS

The Company has performed a review of events subsequent to December 31, 2023 through April 29, 2024, the date these financial statements were available for issuance. There are no subsequent events to disclose.

11. STATUTORY REQUIREMENTS

The Company is registered under the Bermuda Insurance Act 1978, amendments thereto and related regulations which require that the Company maintain minimum levels of solvency and liquidity as defined by the Insurance Account Rules 2016. For the years ended December 31, 2023 and 2022, these requirements have been met.

At December 31, 2023 and 2022, the minimum required statutory capital and surplus and the minimum required level of liquid assets follows:

	<u>2023</u>	<u>2022</u>
	\$	\$
Minimum required statutory capital and surplus	1,000,000	1,000,000
Actual statutory capital and surplus	8,620,322	9,494,151
Minimum required level of liquid assets	360,083	429,654
Actual level of liquid assets	8,518,956	9,974,793