

X SQUARE RE I.I.

(A wholly-owned subsidiary of X Square Re Holding LLC)

***INDEPENDENT AUDITORS' REPORT
AND
AUDITED FINANCIAL STATEMENTS***

DECEMBER 31, 2025

X SQUARE RE I.I.
(A wholly- owned subsidiary of X Square Re Holding LLC)
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FOR THE YEAR ENDED DECEMBER 31, 2025

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
X Square Re I.I.
(a wholly-owned subsidiary of X Square Re Holding LLC):

Opinion

We have audited the accompanying financial statements of X Square Re I.I. (a wholly-owned subsidiary of X Square Re Holding LLC) (the "Company"), which comprise the balance sheet as of December 31, 2025, and the related statements of operations, changes in stockholder's equity, and cash flows for the period then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2025, and the results of its operations and its cash flows for the period 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. Our responsibilities under those standards are further described in the Auditors' 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's evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Related Party Transactions

As disclosed in Note 4, the Company is a member of a group of affiliated companies and has extensive transactions and relationships with members of the group. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. Our opinion is not modified with respect to this matter.

To the Board of Directors of
X Square Re I.I.
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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 within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 generally accepted auditing standards 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, including omissions, 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 auditing standards generally accepted in the United States of America, 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.

To the Board of Directors of
X Square Re I.I.
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- 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.

driven, psc

Driven, P.S.C.

License No. 329 Expires December 1, 2027

Guaynabo, Puerto Rico

March 6, 2026



DPSC329-1734
X SQUARE RE I.I.

X SQUARE RE I.I.
(A wholly-owned subsidiary of X Square Re Holding LLC)
BALANCE SHEET
DECEMBER 31, 2025

ASSETS	2025
Cash	\$ 27,780
Accounts receivable	15,000
Prepaid expenses	3,978
Investment in equity securities, at fair value	4,804,183
Total assets	\$ 4,850,941
LIABILITIES AND STOCKHOLDER'S EQUITY	
Liabilities -	
Due to related parties	\$ 89,757
Total liabilities	89,757
Stockholder's equity:	
Common Stock, \$1 par value, 3,000,000 shares authorized, issued and outstanding 1,250,000 shares	\$ 1,250,000
Additional paid-in-capital	3,250,000
Retained earnings	261,184
Total stockholder's equity	4,761,184
Total liabilities and stockholder's equity	\$ 4,850,941

The accompanying notes are an integral part of these financial statements.

X SQUARE RE I.I.
(A wholly-owned subsidiary of X Square Re Holding LLC)
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2025

INCOME:	2025
Management fees	\$ 79,200
Investment income	45,053
Unrealized gain on equity securities	259,406
Total income	<u>383,659</u>
 GENERAL AND ADMINISTRATIVE EXPENSES:	
Advertising	33,557
Professional services	61,154
Other	27,764
Total general and administrative expenses	<u>122,475</u>
 NET INCOME	 <u><u>\$ 261,184</u></u>

The accompanying notes are an integral part of these financial statements.

X SQUARE RE I.I.
(A wholly-owned subsidiary of X Square Re Holding LLC)
STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2025

	<u>Common Stock</u>	<u>Additional Paid- in-Capital</u>	<u>Retained Earnings</u>	<u>Total Stockholder's Equity</u>
Balance at December 31, 2024	\$ -	\$ -	\$ -	\$ -
Contributions	1,250,000	3,250,000	-	4,500,000
Net income	-	-	261,184	261,184
Balance at December 31, 2025	<u>\$ 1,250,000</u>	<u>\$ 3,250,000</u>	<u>\$ 261,184</u>	<u>\$ 4,761,184</u>

The accompanying notes are an integral part of these financial statements.

X SQUARE RE I.I.
(A wholly-owned subsidiary of X Square Re Holding LLC)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2025

	<u>2025</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
NET INCOME	\$ 261,184
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Unrealized gain on equity securities	(259,406)
Changes in operating assets and liabilities that increase/(decrease) cash:	
Accounts receivable	(15,000)
Prepaid expenses	(3,978)
Due to related parties	89,757
Net cash provided by operating activities	<u>72,557</u>
 CASH FLOWS USED IN INVESTING ACTIVITIES -	
Purchases of equity investments	<u>(4,544,777)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:	
Issuance of common shares	1,250,000
Additional paid-in-capital	3,250,000
Net cash provided by financing activities	<u>4,500,000</u>
 NET INCREASE IN CASH	\$ 27,780
CASH AT BEGINNING OF YEAR	-
CASH AT END OF YEAR	<u>\$ 27,780</u>

The accompanying notes are an integral part of these financial statements.

X SQUARE RE I.I.
(A wholly-owned subsidiary of X Square Re Holding LLC)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

1. ORGANIZATION

X Square Re I.I. (the “Company”) is a Puerto Rico International Insurance Company organized under the provisions of Chapter 61 of the Insurance Code (the “Code”) of Puerto Rico, enacted by Act No. 399, dated September 22, 2004, of the Legislature of the Commonwealth of Puerto Rico. It is a wholly owned subsidiary of X Square Re Holding LLC (the “Parent”), an International Insurer Holding Company organized within the laws of Puerto Rico.

The Company was registered on November 13, 2024, after approval of incorporation of the Office of the Commissioner of Insurance of the Commonwealth of Puerto Rico (the “Commissioner”). The Company received its Certificate of Authority license as an International Insurer on January 23, 2025, and commenced operations in said date.

The Company is authorized as a Class 3 and Class 5 International Insurer, pursuant to the provisions of Chapter 61 of the Code. Under Class 3, the Company is authorized to negotiate property and casualty insurance and under Class 5, the Company is authorized to negotiate life and health insurance.

Pursuant to the authorization granted by the Commissioner as an International Insurer Class 3 and Class 5, the Company is permitted to establish Segregated Asset Plans designated as Protected Cells (“PCs”) in accordance with Article 61.160 of the Code.

According to Article 61.160 of the Code, the assets and liabilities of the Protected Cells are segregated and separately identifiable from the assets and liabilities of the Company's Core General Account (the “Core Cell”), as well as from the assets and liabilities of the other Protected Cells. Pursuant to the contracts or other documentation only the Protected Cell's assets are available for the satisfaction of the Protected Cell's liabilities. Protected Cells have no obligation to the policyholders or insurers of the Company's Core accounts or other Protected Cells, except as specified in the insurance contract. As a rule, each Protected Cell enters into a Participation Agreement with the Company whereby the rights and obligations of such Protected Cells are established in relation to the Company. Should any individual PCs become insolvent, the creditors of that PC will only have access to the assets of that specific PC and will have no recourse against the assets of other PCs or the Core Cell.

As of December 31, 2025, the Company had not established any Protected Cells, had not written any insurance or reinsurance policies, and had no premiums, claims, or loss and loss adjustment expense reserves; accordingly, the accompanying financial statements do not include any financial information related to Protected Cells or any amounts related to insurance contracts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accounting policies followed by the Company conform to predominant industry practices followed by the industry, which are in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

X SQUARE RE I.I.
(A wholly-owned subsidiary of X Square Re Holding LLC)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Use of Estimates – The preparation of the financial statements in accordance with U.S. GAAP 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 reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash represents demand deposit accounts in banks. The Company considers highly liquid investments with maturities of three months or less at the time of the purchase to be cash equivalents. As of December 31, 2025, there were no cash equivalents.

Accounts Receivable – Accounts receivable are recorded at their estimated realizable value. The Company's accounts receivable primarily consist of amounts due from clients for management fee income earned in the ordinary course of business.

Allowance for Credit Losses – The Company records an allowance for credit losses measured over the contractual life of the accounts receivable based on an assessment of historical collection activity and current and forecasted future economic conditions under a current expected credit losses ("CECL") model. As the large majority of the Company's accounts receivable settle in less than a year, the forecast period under the CECL model is relatively short horizon.

The allowance for credit losses is the Company's best estimate of the amount of probable credit losses in the Company's existing account receivable. The allowance for credit losses for uncollectible management fees is based on an estimate of the accounts receivable balance that will ultimately be unrecoverable due to a contractual dispute, or any other reason. The determination of the allowance is principally based on the financial strength of the customer. It requires considerable judgment and is determined using the current financial strength, or rating equivalent, of each customer as well as other key considerations and assumptions. Changes in the valuation allowance for uncollectible accounts receivable are recorded in general and administrative expenses in the accompanying statement of operations. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. There is no allowance for credit losses at December 31, 2025.

Investments in Equity Securities – Equity securities held by the Company that have readily available market quotes are reported at fair value with changes in fair value recorded in unrealized gains (losses) on the statement of operations. Equity securities that do not have readily available fair values and that does not qualify for the practical expedient to estimate fair value, are measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. As of December 31, 2025, equity securities amounted to \$4,804,183. For the year ended December 31, 2025, the unrealized gain on equity securities amounted to \$259,406.

The Company reviews and updates, when necessary, its historical risk characteristics that are meaningful to estimating credit losses, any new risk characteristics that arise in the natural course of business and the estimated life of its financial assets.

X SQUARE RE I.I.
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Fair value measurement of Financial Investments – Certain financial instruments are stated at fair value. Fair value is 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. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Significant inputs to the valuation model are unobservable.

The Company maintains policies and procedures to value financial instruments using the best and most relevant data available.

A description of the valuation techniques applied to the Company's investments, which are measured at fair value on a recurring basis are as follows:

Equity securities – Equity securities with active markets are classified within Level 1, as fair values are based on quoted market prices at the reporting date multiplied by the quantity held. For equity securities in markets which are less active, fair values are based on market valuations and are classified within Level 2. Equity securities for which pricing is unobservable are classified within Level 3.

Due to Related Parties – Due to related parties are mostly related to certain advances made from related parties as part of the normal course of business. These balances bear no interest and have no fixed repayment schedule.

Management Fees – Management fees are recognized as revenue as the related services are performed. The Company earns management fees for providing administrative and management services in connection with insurance and reinsurance operations. Fees are calculated based on a fixed percentage from the insurance and reinsurance premiums in force in accordance with the underlying agreements.

X SQUARE RE I.I.
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

Investment income – Interest and dividend income from money market and equity securities are recognized when earned. Purchases and sales of securities are recorded on their trade date. Unsettled purchase transactions are recorded as part of the Company's investment positions and as a liability, while unsettled sales transactions are removed from the Company's investment positions and recorded as a receivable.

Premiums and discounts are amortized as an adjustment to interest income over the life of the related securities using the effective interest method.

Realized gains or losses for debt and equity are reported in earnings for the corresponding period. When computing realized gains or losses, the cost of securities is determined on the specific identification method.

Expense recognition – Expenses are recorded when incurred under the accrual basis of accounting.

Advertising – The Company expenses the cost of advertising as incurred. Advertising expense amounted to \$33,557 for the year ended December 31, 2025, and is included in the advertising caption in the accompanying statement of operations.

Income taxes – Income taxes are accounted for using the asset and liability method under which deferred income taxes are recognized for the tax consequences of "temporary difference" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities and operating loss carry-forwards. The effect of deferred taxes for a change in tax rates is recognized in income in the period that includes the enactment date. Management provides valuation allowances against the deferred tax asset for amounts which are not considered "more likely than not" to be realized.

The Company follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

X SQUARE RE I.I.
(A wholly-owned subsidiary of X Square Re Holding LLC)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

3. FAIR VALUE MEASUREMENTS

The Company has categorized its investments of equity securities measured at fair value on a recurrent basis into the three-level hierarchy, as defined in Note 1, based on the inputs to the corresponding valuation techniques. The following tables summarize the investment in securities within the three-level fair value hierarchy:

	Fair Value Measurement Using			Total
	Quoted Prices in Active Markets for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<i>Equity securities</i>				
Mutual Funds	\$ 4,804,183	\$ -	\$ -	\$ 4,804,183

The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Fair values are based upon quoted market prices when available. If listed prices or quotes are not available, the Company employ internally- developed models that primarily use market-based inputs including yield curves, interest rates, volatilities, and credit curves, among others. Valuation adjustments are limited to those necessary to ensure that the financial instruments fair value is adequately representative of the price that would be received or paid in the market place. These adjustments include amounts that reflect counterparty credit quality, constraints on liquidity and unobservable parameters that are applied consistently.

The unrealized gains on equity securities for the year ended December 31, 2025, amounted to \$259,406.

The Company evaluates the significance of transfers between levels based upon the nature of the financial instruments and size of the transfer relative to the Company's capital. For the year ended December 31, 2025, there was no transfer in or out of levels 1, 2 or 3.

4. RELATED PARTY TRANSACTIONS

The Company engages in transactions with X-Square Capital LLC, an affiliated entity under common control which owns 83% of the parent company. These transactions arise from the payment of general and administrative expenses by the affiliate on behalf of the Company. As of December 31, 2025, the amount due to the affiliated company totaled \$89,757.

X SQUARE RE I.I.
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

X-Square Capital LLC is also the registered investment adviser of X Square Balanced Fund – Institutional Class (SQBIX) (the "Fund"), an open-end investment company. Because both the Company and the Fund are under the common control of X-Square Capital LLC, the fund is considered a related party of the Company. As of December 31, 2025, the Company held an investment in X Square Balanced Fund – Institutional Class (SQBIX), classified as investment in equity securities at fair value, with a fair value of \$4,804,183. This amount is presented as investment in equity securities, at fair value, on the accompanying balance sheet.

5. INCOME TAXES

The Company was granted a tax decree from the Department of Economic Development and Commerce of Puerto Rico to be treated and regulated as an International Insurer under Act 60-2019, as amended, specifically pursuant to Section 2042.02 of the Puerto Rico Incentives Code.

The Company is subject to Puerto Rico income tax at a rate of 4% on taxable net income in excess of \$1,200,000 pursuant to a tax exemption decree approved on March 5, 2026. Management has determined that the effective date of the decree will be January 23, 2025; accordingly, the decree is expected to apply to the period ended December 31, 2025. Based on the Company's taxable net income for the year ended December 31, 2025, which was below \$1,200,000, no income tax provision has been recorded.

Since the Company has not filed a 953(d) election and is a Puerto Rico Corporation subject to taxation of International Insurers, it is not subject to United States corporate income taxes at the corporate tax rate pursuant to United States Internal Revenue Code Section 11(b). Accordingly, no provision has been made for the United States corporate income taxes for the Company.

6. STATUTORY NET INCOME AND SURPLUS

The Company prepares its financial statements in accordance with U.S. GAAP. For statutory purposes, particularly for filing of the annual report for the Office of the Commissioner of Insurance of Puerto Rico, statutory net income, capital, and surplus (stockholder's equity per U.S. GAAP terminology) are stated in accordance with accounting practices prescribed and permitted by the Commissioner of Insurance and by the National Association of Insurance Commissioners (NAIC).

X SQUARE RE I.I.
(A wholly-owned subsidiary of X Square Re Holding LLC)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025

A reconciliation of net income (loss) in accordance with U.S. GAAP with accounting practices prescribed and permitted by the Commissioner of Insurance for the year ended December 31, 2025, is as follows:

Description	2025
Net income under US GAAP	\$ 261,184
Add (less):	
Accounts and premium receivable over 180 days	-
Deferred acquisition cost	-
Deferred tax assets	-
Goodwill	-
Movable property not used by the international insurer	-
Computer software	-
Capital and surplus under statutory basis (Rule 80)	\$ 261,184

A reconciliation of capital and surplus in accordance with accounting practices prescribed and permitted by the Commissioner of Insurance with accounting principles generally accepted in the United States of America for the year ended December 31, 2025, is as follows:

Description	2025
Equity under US GAAP	\$ 4,761,184
Add (less):	
Non-admitted asset (Rule 80):	
Accounts and premium receivable over 180 days	-
Deferred acquisition cost	-
Deferred tax assets	-
Goodwill	-
Movable property not used by the international insurer	-
Computer software	-
Capital and surplus under statutory basis (Rule 80)	\$ 4,761,184

7. STATUTORY CAPITAL & LIQUIDITY REQUIREMENTS

The Company is subject to Commonwealth regulations that, among other things, require the maintenance of minimum levels of statutory capital and restrict the timing, payment and amount of dividends and other distributions that may be paid. To the extent, the Company must comply with these regulations, the Company may not have the financial flexibility to pay dividends.

X SQUARE RE I.I.
(A wholly-owned subsidiary of X Square Re Holding LLC)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2025

Section 10 of Rule No. 80 of the Regulations of the Puerto Rico Insurance Code requires that international insurers comply with certain minimum capital requirements. As a licensed Class 3 Authority international insurer, the Company must maintain capital and surplus in the greater of \$1,500,000, or thirty- three percent (33%) of the net written premium in the current accounting year. As a licensed Class 5 Authority international insurer, the Company must maintain surplus in the greater of \$750,000, or the ratio of net premium plus written considerations and Capital and Surplus, established in the Operational Plan submitted along with the authorization application or amended and approved by the Commissioner, applied to net premium and considerations in the current accounting year. In addition, the Company must maintain a liquidity ratio of liquid assets to total liabilities greater than 80%. As of December 31,2025, the Company was in compliance with these requirements.

8. CONCENTRATION OF CREDIT RISK

The Company maintains deposit accounts at high quality financial institutions. While the Company attempts to limit any financial exposure, its deposit balance may, at times, exceed federally insured limits. All non-interest-bearing cash deposits are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of December 31, 2025, the Company did not exceed the insured limit. The Company has not experienced any losses on such accounts and does not foresee near-term risk on these deposits.

9. SUBSEQUENT EVENTS

Subsequent to December 31, 2025, the Company formed its first segregated asset plan (the "SAP") which will operate as a protected cell under the Company's protected cell plan of operations. The formation of the SAP represents an expansion of the Company's protected cell activities and is expected to generate additional fee income and related administrative responsibilities in future periods.

The Company has evaluated subsequent events through March 6, 2026, the date on which the audited financial statements were available to be issued. As except as described above, there were no subsequent events that require adjustment to or disclosure in the financial statements.