

**STABLE UNIVERSAL LIMITED**  
**Examination of Management Assertion Report – Hot USD tokens (“HUSD”)**  
**December 31, 2019 at 5:00 PM Eastern Time**  
**With Independent Accountant’s Report**

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## INDEPENDENT ACCOUNTANT'S REPORT

Stable Universal Limited  
Eastvale, CA 92880

We have examined Stable Universal Limited's [a company located in the British Virgin Islands, (hereafter "the Company)] below assertions. The Company's management is responsible for its assertions. Our responsibility is to express an opinion on management's assertions based on our examination. Management's assertions, which are summarized in the attached report, (hereafter referred to as the "Reserve Accounts Report"), which we examined are as follows:

- The Reserve Accounts Report refers to the total token supply of Hot USD ("HUSD") as of December 31, 2019 at 5:00 pm Eastern Time ("ET"). Such HUSD, (which also represents the total circulating token supply) as denoted under contract 0xdf574c24545e5ffecb9a659c229253d4111d87e1 at 18 decimals at 5:00 pm ET on December 31, 2019 (the "Report Date and Time") is 96,931,113.70, as reported by the EtherScan API, the Ethplorer API, and an internally maintained and operated node on the Ethereum network.
- The Reserve Accounts Report refers to the accounts held and managed by Paxos Trust Company, LLC, ("Paxos"), a third party administrator and custodian, on behalf of the Company. Paxos will hold funds at U.S. depository institutions, including U.S. depository institutions to which cash is swept pursuant to a certain deposit placement agreement, in U.S. Treasuries, in U.S. Treasury backed Bills, Bonds, and Notes, or in Paxos Standard ("PAX") tokens, which are also controlled and managed by Paxos and have a redemption value of \$1 U.S. dollar for each PAX token, (hereafter the "Reserve Funds"). The Reserve Funds are at least equal to or greater than \$96,931,113.70 at the Report Date and Time. This does not contemplate the impact of outstanding checks/wires, deposits in transit or other reconciling items.
- The total HUSD token supply, for which each HUSD is assigned a redemption value, strictly pegged at a 1:1 ratio to the Reserve Funds held by Paxos on behalf of the Company for holders of HUSD, does not exceed the balance of the Reserve Accounts reported below.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform procedures to obtain reasonable assurance about whether management's assertions are fairly stated, in all material respects. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertions whether due to fraud or error.

In performing our risk assessment, we considered the Company's internal controls relevant to the aforementioned assertions, in order to design 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, we did not test the operating effectiveness of such controls and express no such opinion thereon.

We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We direct your attention to the accompanying notes of the Reserve Accounts Report for risks and uncertainties related to cryptocurrencies and background information provided by management as well as the following disclosures:

- Paxos is the Company's administrator and custodian of all Reserve Funds. Paxos is a limited purpose trust company, regulated under the laws of the State of New York. Paxos is not regulated by the Office of the Comptroller of the U.S. Currency. While the funds remain in the custody of Paxos, the Company does not have direct access of said funds or direct control over the cash management of said funds; however, Paxos is required to act upon the instruction of the Company. Accordingly, any issues related to Paxos could have a significant impact on the redemption of or the redemption value of the HUSD stable coin.
- At any given time, Paxos has the right to hold the funds in any combination of varying financial instruments at their discretion. Those instruments generally include, but are not necessarily limited to U.S. dollars, U.S. Treasuries, U.S. Treasury backed Bills, Bonds, and Notes, and PAX Tokens which are supported by underlying USD or U.S. Treasuries. In that regard, as of the report date and time, approximately 90% of the Reserve Funds were held in PAX tokens which can be subject to various risks of ownership, irreversible transactions and regulatory uncertainty as follows:
  1. Crypto assets are owned anonymously. While the public keys of virtual wallets holding crypto assets reside on the distributed networks and can be viewed publicly, the ownership of the wallets are normally not registered and therefore, anonymous. Ownership of crypto assets is evidenced primarily by the possession of the underlying private key (e.g. passcode). The possessor of the private key controls the corresponding crypto asset wallet.
  2. Risk of irreversible transactions. Transactions for most crypto assets that occur over the blockchain are generally irreversible, even if such transaction occurs fraudulently or accidentally. If a private key was lost or fraudulently used, the crypto assets in the corresponding wallet may not be recoverable.
  3. Regulatory uncertainty. Legislative and regulatory changes or actions may change or affect the use, transfer, exchange, and value of crypto assets. The effects of any such changes are not determinable as of the date of this report.

We have not audited, reviewed or performed any procedures to provide assurance with respect to these notes. Accordingly, we provide no opinion, conclusion, or any other form of assurance with respect to these accompanying notes to the Reserve Accounts Report.

The expressed examination opinion on the above assertions are limited solely to the Reserve Accounts Report at the Report Date and Time noted above. Any activity prior to or after December 31, 2019 at 5:00 pm ET was not considered when testing the assertions described above. In addition, we have not performed any procedures or provided any level of assurance on the financial or non-financial activity of the Reserve Accounts on dates or times other than the Report Date and Time noted within this report.

In our opinion, management's assertions noted above are fairly stated as of December 31, 2019 at 5:00 pm ET, in all material respects.

*William Smith + Brown, PC*

January 8, 2020

## RESERVE ACCOUNTS REPORT

Stable Universal Limited (the "Company")

December 31, 2019 at 5:00 pm (Eastern Time) (hereafter "Report Date and Time")

The management of the Company hereby makes the following assertions as of the Report Date and Time:

<b>HUSD tokens issued and in circulation (Notes 1 and 3)</b>	<b>96,931,113.70 HUSD</b>
<b>U.S. dollar, U.S. Treasuries, U.S. Treasury backed Bills, Bonds, and Notes, and PAX tokens (denominated or redeemable in U.S. Dollars) in Reserve Funds (Note 2)</b>	<b>\$ 96,931,113.70</b>

### NOTES

1. The total supply of the Company's Hot USD ("HUSD") (which also represents the total circulating token supply) as denoted under contract 0xdf574c24545e5ffecb9a659c229253d4111d87e1 at 18 decimals at 5:00 pm ET on the last calendar day of each month (the "Report Date and Time") is 96,931,113.70, as reported by the EtherScan API<sup>1</sup>, the Ethplorer API<sup>2</sup>, and an internally maintained and operated node on the Ethereum network.
2. The Reserve Funds refers to the custody accounts held managed by Paxos Trust Company, LLC ("Paxos"), a trust company located in the United States, for the benefit of the Company and HUSD token holders. The amounts held on behalf of the Company in U.S. Dollars, U.S. Treasuries, U.S. Treasury backed Bills, Bonds, and Notes, and PAX tokens is at least equal to or greater than \$96,931,113.70 at the Report Date and Time. This does not contemplate the impact of outstanding checks/wires, deposits in transit or other reconciling items.
3. The total HUSD token supply, for which each HUSD is assigned a redemption value of \$1 U.S by the Company, does not exceed the balance of the Reserve Accounts reported above.

To the best of the knowledge and belief of the undersigned, the information contained in the Reserve Accounts Report as of December 31, 2019 at 5:00pm Eastern Time is accurate and complete.



Frank Zhang, *Chief Executive Officer*  
Stable Universal Limited

1/8/2020

Date

<sup>1</sup> <https://etherscan.io>

<sup>2</sup> <https://ethplorer.io/>

## **1. BACKGROUND INFORMATION PROVIDED BY STABLE UNIVERSAL LIMITED**

Stable Universal Limited (the “Company”) is a British Virgin Islands company. The Company’s Hot USD (“HUSD”) is a cryptographic stored value token, which allows financial market participants to transact in a crypto asset that has been strictly pegged 1:1 to the U.S. dollar, as it is backed by funds held and managed in a custody accounts managed by its custodian and third party administrator, Paxos Trust Company, LLC (“Paxos”). The underlying value or liquidity (ability to convert HUSD into fiat currency) of HUSD may be significantly impacted if the third party administrator fails, or is unable, to perform its duties as the Company does not have direct access or control over the underlying funds.

Paxos may at its discretion hold the funds in any combination of U.S. Dollars, U.S. Treasury bonds, U.S. Treasury backed Bills, Bonds, and Notes, or PAX tokens, which are also controlled and managed by Paxos (hereafter the “Reserved Funds”) on behalf of the Company for the HUSD token holders. Funds held in U.S. depository institutions may be in excess of applicable insurable limits and, when applicable, funds held in U.S. Treasury Bonds, Bills, and Notes are subject to market risk. As of the report date and time, approximately 90% of the Reserve Funds are held in PAX Tokens. Funds held in PAX tokens are not subject to applicable insurable limits. Further, if the Company were to end its relationship with Paxos, or if an event were to cause liquidity, operational financial solvency or other issues with Paxos, it could have a significant adverse impact on the redemption of the HUSD tokens.

Paxos is the Company’s administrator and custodian of all Reserve Funds. Paxos is a state regulated limited purpose trust company under the laws of the State of New York. Paxos is not regulated by the Office of the Comptroller of the U.S. Currency. While the funds remain in the custody of Paxos, the Company does not have direct access of said funds or direct control over the cash management of said funds; however, Paxos is required to act upon the instruction of the Company.

The Company’s HUSD is an ERC-20 token, which is built on the Ethereum public blockchain and as such, the total number of HUSD tokens in circulation is fully and transparently viewable at all times by anyone through any publicly available ethereum block explorer (e.g., etherscan).

## **2. DISCUSSIONS RELATED TO CRYPTO ASSETS GENERALLY**

As of the date and time of this report, crypto assets remain an evolving area of technology and market place activity. Those who choose to invest in crypto assets, or crypto assets backed by other crypto assets, should inform themselves of the general risks and uncertainties associated with such assets.

(1) Crypto assets are owned anonymously. While the public keys of virtual wallets holding crypto assets reside on the distributed networks and can be viewed publicly, the ownership of the wallets are normally not registered and therefore, anonymous. Ownership of crypto assets is evidenced by the possession of the underlying private key (e.g. passcode). The possessor of the private key controls the corresponding crypto asset wallet.

(2) Risk of irreversible transactions. Transactions for most crypto assets that occur over the blockchain are generally irreversible, even if such transactions occur fraudulently or accidentally. If a private key was lost or fraudulently used, the crypto assets in the corresponding wallet may not be recoverable.

(3) Regulatory uncertainty. Legislative and regulatory changes or actions may change or affect the use, transfer, exchange, and value of crypto assets. The effects of any such changes are not determinable as of the date of this report.