ITASCA RE LIMITED

Financial Statements
(With Independent Auditor’s Report Thereon)

From Inception date of July 12, 2022 to December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of Itasca Re Limited

Opinion

We have audited the financial statements of Itasca Re Limited (the "Company"), which comprise the balance sheet as of December 31, 2022, and the related statements of income and comprehensive income, changes in shareholder's equity, and cash flows for the period then ended, and the related notes to 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, 2022, and the results of its operations and its cash flows for the period then ended in accordance with U.S. generally accepted accounting principles.

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 U.S. generally accepted accounting principles, 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 one year after the date that the financial statements are available to be 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 scepticism 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.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 20, 2023

ITASCA RE LIMITED

Balance Sheet

As at December 31, 2022
(Expressed in United States Dollars)

	2022
Assets	
Cash and cash equivalents (Notes 3)	8,107,227
Prepaid expenses	47,876
Deferred income tax asset (Note 4)	-
Total assets	**8,155,103**
Liabilities	
Accounts payable and accrued expenses	86,787
Total liabilities	86,787
Shareholder's Equity	
Common stock (Note 5)	120,000
Additional paid-in capital (Note 5)	9,905,000
Retained loss	(1,956,684)
Total shareholder's equity	8,068,316
Total liabilities and shareholder's equity	**8,155,103**

See accompanying notes to financial statements.

Signed on behalf of the Board

kostya zolotusky
kostya zolotusky (Apr 19, 2023 12:18 PDT)
Director

Richard [illegible]
Director

ITASCA RE LIMITED

Statements of Income and Comprehensive Income

For the period from July 12, 2022, to December 31, 2022
(Expressed in United States Dollars)

	2022
Income	
Investment income	50,006
Total income	50,006
Expenses	
General and administrative expenses	2,006,676
Foreign exchange loss	14
Total expenses	2,006,690
Net loss before taxes	(1,956,684)
Income tax benefit (Note 4)	-
Total comprehensive loss	(1,956,684)

See accompanying notes to financial statements.

ITASCA RE LIMITED

Statements of Changes in Shareholder's Equity

For the period from July 12, 2022, to December 31, 2022
(Expressed in United States Dollars)

	2022
Common stock	
Balance at July 12, 2022	-
Issuance of common stock (Note 5)	120,000
Balance at end of year	120,000
Additional paid-in capital	
Balance at July 12, 2022	-
Receipt of additional paid-in capital	9,905,000
Balance at end of year	9,905,000
Retained loss	
Balance at July 12, 2022	-
Total comprehensive loss	(1,956,684)
Balance at end of year	(1,956,684)
Total shareholder's equity	**8,068,316**

See accompanying notes to financial statements.

ITASCA RE LIMITED

Statement of Cash Flows

For the period from July 12, 2022, to December 31, 2022
(Expressed in United States Dollars)

	2022
Operating activities	
Total comprehensive loss	(1,956,684)
Net changes in non-cash balances relating to operations	
Prepaid expenses	(47,876)
Accounts payable and accrued expenses	86,787
Cash used in operating activities	(1,917,773)
Financing activities	
Issuance of common stock	120,000
Receipt of additional paid-in capital	9,905,000
Cash provided by financing activities	10,025,000
Increase in cash and cash equivalents	8,107,227
Cash and cash equivalents, July 12, 2022	-
Cash and cash equivalents, end of year	8,107,227

See accompanying notes to financial statements.

1. General Operations

Itasca Re Limited (the "Company") was incorporated in Bermuda on July 12, 2022 and holds a Class 3B license under the Insurance Act, 1978 of Bermuda. The Company is a wholly-owned subsidiary of Castlelake VI, L.P. ("Castelake"), a global alternative investment manager. The Company has been established to provide insurance-based solutions to address airlines' and aircraft leasing companies' financing needs. Castlelake, on behalf of the Company, had posted a $10,000,000 letter of credit in favour of Starr International (Europe) Limited in support of its reinsurance agreement.

No reinsurance agreements were entered into for the period July 12, 2022 to December 31, 2022.

2. Basis of preparation and summary of significant accounting policies

The preparation of financial statements in conformity with United States generally accepted accounting policies ("US 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 period. Actual results could differ from those estimates.

The following are the significant accounting policies adopted by the Company:

a) Translation of foreign currency

Functional and presentation currency - Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (''the functional currency''). The financial statements are presented in U.S. Dollar ($), which is the Company's functional and reporting currency.

Transactions and balances - Foreign currency assets and liabilities are translated at exchange rates in effect at the balance sheet date. Income and expenses are translated at the transaction date. Translation gains and losses are included in the statements of income.

b) Investment income

Investment income is accounted for on an accrual basis and includes interest income earned on cash and cash equivalent balances.

c) Cash and cash equivalents

For the purposes of the statements of cash flows, the Company considers all cash on hand and deposits with financial institutions that can be withdrawn without prior notice or penalty, and short-term deposits with an original maturity of ninety days or less as equivalent to cash.

d) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred 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. 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. Deferred tax assets are reduced by a valuation allowance when management believes it is more likely than not that some, or all, of the deferred tax assets will not be realized

The Company reports its liability and expense for income taxes under the requirements of FASB ASC Topic 740, Income Taxes.

The Company recognizes the effect of income tax positions measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgement occurs. The Company records interest related to unrecognized tax benefits and penalties in general expenses. This accounting standard did not have any effect on the Company's financial condition or result of operations in 2022.

3. Cash and cash equivalents

As of December 31, 2022, cash and cash equivalents comprise unrestricted cash held with a single institution with A- credit rating.

4. Taxation

Bermuda

Under current Bermuda law, the Company is not required to pay taxes in Bermuda on income, profit, or capital gains. The Company has received an undertaking from the Bermuda Government exempting it from all such taxes until March 2035.

United States

The Company made the election under Section 953(d) of US Internal Revenue Code of 1986, as amended, to be taxed as a U.S. domestic corporation effective July 12, 2022 and is subject to U.S. federal and state income taxation on its income. Confirmation of acceptance of election under Section 953(d) has not yet been received.

Total income tax for the period ended December 31, 2022 was allocated as follows:

	2022
Income tax benefit from continuing operations	410,904
Less: Valuation allowance	(410,904)
Shareholder's equity for unrealized gains and losses recognized for financial reporting purposes	-
Total income tax benefit	**-**

The significant components of income tax benefit from continuing operations are as follows:

	2022
Federal income taxes	
Current tax benefit	-
Deferred tax benefit	410,904
Less: Valuation allowance	(410,904)
Total income tax benefit	**-**

The deferred income tax assets and liabilities at December 31, 2022 are attributable to the following temporary differences:

	2022
Deferred income tax assets:	
Net operating loss	410,904
Gross deferred tax asset	
Less: Valuation allowance	(410,904)
Gross deferred income tax liabilities	-
Net deferred income tax asset	**-**

The Company adopted the provision of ASC 740-10 (formerly FIN 48), Accounting for Uncertainty in Income Taxes, for the period ended December 31, 2022. The Company has not recognized any liabilities for unrecognized tax benefits as a result of the implementation of ASC 740-10.

A full valuation allowance for deferred tax assets was considered at December 31, 2022 on the basis of there being uncertainty over future taxable income projections and the IRS pushing back to an extent on the 953(d) application and whether it will be effective for the 2022 year or not.

Management has evaluated the Company's tax positions at December 31, 2022 and no accrual has been established for uncertain tax positions.

The reconciliation of income taxes attributable to continuing operations computed at the expected rate of tax to income tax expense is as follows:

	2022	
Tax at expected rates	410,904	21%
Other permanent differences including provision to return	-	0%
Valuation allowance	(410,904)	(21%)
Total income benefit	**-**	**0%**

5. Common Stock and Additional paid-in capital

Holders of common stock are entitled to one vote per share, to receive dividends, and to receive all assets available for distribution to stockholders upon liquidation or dissolution. The holders have no preemptive or other subscription rights, and there are no redemption or sinking fund provisions with respect to such shares.

On August 16, 2022 the Company received from Castlelake VI, LP. an amount of US$120,000 representing the initial paid in capital by way of subscription of 120,000 shares at par value US$1 per share.

On July 26, 2022 the Company received from Castlelake VI, LP. an amount of US$25,000 representing additional paid-in capital.

On August 15, 2022 the Company received from Castlelake VI, LP. an amount of US$9,880,000 representing additional paid-in capital.

6. Statutory requirements

The Company is registered under the Insurance Act of 1978 of Bermuda (the "Insurance Act"), and licensed as a Class 3B insurer. The Insurance Act grants the Bermuda Monetary Authority powers to supervise the insurance companies. The Insurance Act requires the Company to hold minimum statutory margin and surplus (Enhanced Capital Requirements or "ECR") at least equal to the greater of a minimum solvency margin or the Bermuda Solvency & Capital Requirement ("BSCR"). The BSCR is calculated using the standard risk-based capital model developed by the BMA. The BSCR model follows a standard formula framework and capital attributed to each risk is calculated by applying capital factors to the assets and liabilities.

At the time the company commences writing business it will manage and maintain capital at level consistent with at least 150% of its Enhanced Capital Requirements ("ECR"). The Company's Risk Framework and various risk committees actively monitor and manage the adequacy of the Company's capital to ensure that target levels can be maintained and minimum thresholds (120% ECR) are not breached under adverse stress scenarios. The Company also benefits from being the investment of well-capitalised funds with resources available to manage capital levels across different entities through the use of capital commitments from investors, as well as third-party financing and risk sharing arrangements such as retrocession if necessary.

The Company did not write any business during its first year of operations. At December 31, 2022 the Company reported a net statutory capital and surplus of $8,020,440 and it is required to maintain a minimum capital and surplus of $1,000,000. The company is therefore considered in compliance as at December 31, 2022.

Actual statutory capital and surplus as determined using statutory accounting principles, is as follows:

Total shareholder's equity	8,068,316
Less non-admitted assets:	
Prepaid expenses	(47,876)
	8,020,440

The Company is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and deposits, investments, accrued interest receivables, premiums receivable, deductibles receivable and funds withheld. Certain categories of assets do not qualify as relevant assets under the statute. The relevant liabilities are total general business insurance reserves (net of reinsurance recoverable) and total other liabilities, less sundry liabilities.

At December 31, 2022 the Company was required to maintain relevant assets of at least $65,090. At that date relevant assets were approximately $8,107,227 and the minimum liquidity ratio was therefore met.

7. Related party transactions

The Company enters into transactions with its group entities and key management personnel. Related parties are defined as those that have an ability to control or exercise significant influence over the other party in making financial and operation decisions.

There are no outstanding balances with related parties at December 31, 2022.

A program management fee of $1,651,612 was paid to related party Itasca Services during the period July 12, 2022, to December 31, 2022.

8. Subsequent events

On January 31, 2023, the Company signed two reinsurance contracts with Icelandair for Aircraft Non-Payment Credit Insurance.

Management has evaluated subsequent events from the year ended December 31, 2022 through to April 20, 2023, the date of the issuance of the financial statements and concluded there are no items requiring disclosure at this date.

No further items require disclosure.