

**ITASCA CAPITAL LTD.  
INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS – QUARTERLY HIGHLIGHTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020**

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## **Background**

This Management Discussion and Analysis (“MD&A”) of financial position and results of operation for Itasca Capital Ltd. (the “Company” or “Itasca”) is prepared as at November 23, 2020. This MD&A should be read in conjunction with the Company’s unaudited condensed consolidated interim financial statements as at and for the nine months ended September 30, 2020 and with the Company’s audited consolidated financial statements as at and for the year ended December 31, 2019.

Except as otherwise disclosed, all dollar figures included in the consolidated financial statements and in the following MD&A are quoted in Canadian dollars, and have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. Additional information relevant to the Company’s activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Forward-Looking Statements**

Certain statements contained in the following MD&A constitute forward-looking statements. Such forward-looking statements may include, but are not limited to statements regarding the Company’s strategy and future cash flows. These forward-looking statements involve a number of known and unknown risks, uncertainties and other factors. The outcomes of these factors may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements.

## **Company Overview**

Trading under the symbol “ICL” on the TSX Venture Exchange (“TSXV”), Itasca has no current operations and currently holds cash and marketable securities through its subsidiary, 1347 Investors LLC (“1347 LLC”). In July 2016, Itasca completed the investment in 1347 LLC in the amount of USD\$10,000,000, which was fully realized in 2019 whereby 1347 LLC became a wholly owned subsidiary of Itasca. For detailed discussion regarding this investment and its realization, see Marketable Securities & Investment in 1347 Investors LLC. Since June 2016, the Company had operated via a management services agreement with Kingsway Financial Services Inc. (“MSA”). Pursuant to the MSA, Kingsway Financial Services Inc. (“KFS”) had been providing, for an annual service fee of \$1.00, management and administrative services to Itasca, including services of Chief Executive Officer, Chief Financial Officer and Corporate Secretary and was entitled to expense reimbursement of up to \$40,000 per annum for use of KFS’s other staff and resources. Effective January 31, 2019 the MSA was terminated and Itasca entered into new executive services agreements directly with wholly owned entity of each Larry Swets, Jr. (“Swets MSA”) and Hassan Baqar (“Baqar MSA”), who are continuing in their roles as Chief Executive Officer and Chief Financial Officer of Itasca, respectively. Prior to 1347 LLC becoming a wholly owned subsidiary of Itasca, 1347 LLC had entered into a management services agreement with wholly owned entity of Hassan Baqar (“Baqar 1347 MSA”), which continues to be in effect. For further details of Swets MSA, Baqar MSA and Baqar 1347 MSA, see Related Party Transactions.

On September 17, 2020, the Company announced that 1347 LLC has agreed to acquire (the “Acquisition”), for considerations of \$11,500,000 in cash, a sawmill and related assets located in Kenora, Ontario from the court-appointed receiver of a resource-based vendor. The Acquisition was approved by a court vesting order of the Manitoba Court of Queen’s Bench on September 9, 2020. The Acquisition closed on October 6, 2020. The assets purchased in the Acquisition are comprised a sawmill and related equipment and land of approximately 114 acres. The sawmill is located near major transportation routes, including the Trans-Canada Highway and the main Canadian Pacific rail line, providing easy access to the nearby Canadian-United States border and several key mid-west U.S. markets, including Minneapolis, Chicago, St. Louis

and Dallas. In anticipation of closing of the Acquisition, Itasca deposited cash in escrow, which amounted to \$11,665,118 as of September 30, 2020.

In connection with the Acquisition, Company also announced on September 17, 2020 its intent to complete a non-brokered private placement financing (the “Private Placement”) of 2,000,000 units (the “Units”) at a purchase price of \$0.50 per Unit and of 4,000 convertible debentures (the “Convertible Debentures”) at a purchase price of \$1,000 per Convertible Debenture for aggregate gross proceeds of \$5,000,000. The Company closed the Private Placement on October 22, 2020. Concurrently with the closing of the Private Placement, each of Mr. Paul Rivett and Rick Doman were appointed to Itasca’s Board of Directors.

## **Marketable Securities & Investment in 1347 Investors LLC**

### ***Investment in 1347 Investors LLC***

In July, 2016, the Company entered into a subscription agreement with 1347 LLC to subscribe for up to 10,000,000 Class A Preference Interests of 1347 LLC (the “Class A Interests”) for a purchase price of USD\$1.00 per Class A Interest, for an aggregate total of up to USD\$10,000,000 (the “Investment”). 1347 LLC is a limited liability company formed under the laws of state of Delaware, USA. 1347 LLC invested in securities of Limbach Holdings Inc. (“Limbach”), a publicly traded entity on the Nasdaq Capital Market under the symbol “LMB”. In connection with the Investment, the Board of Directors of Itasca amended the investment policy of the Company to include investments in both the natural resource and industrial sectors.

On February 16, 2018, Itasca received a distribution of USD\$4,000,000 from 1347 LLC as a partial return of capital distribution out of the total USD\$10,000,000 originally invested.

In connection with the Investment, Itasca entered into an amended and restated limited liability company agreement (the “Operating Agreement”) in 2016 by and among the then existing members of 1347 LLC, which governed, among other things, the economic distribution waterfall, rights of the members of 1347 LLC and the management and governance of 1347 LLC. Effective September 30, 2019, Itasca entered into a Distribution and Redemption Agreement (the “Redemption Agreement”) with 1347 LLC and other 1347 LLC investors, the closing of which required receipt of approval from Limbach pursuant to its insider trading policy (“Required Approval”). The Redemption Agreement represented the revised and final terms of the distribution from 1347 LLC to its investors, including to the Company. Upon receipt of the Required Approval on November 19, 2019, the Redemption Agreement closed and the assets of 1347 LLC were transferred to its members (except Itasca) in a liquidating distribution pursuant to the terms of the Redemption Agreement whereby members receiving such liquidating distribution ceased to be members of 1347 LLC effective November 19, 2019. Upon closing of the Redemption Agreement, 1347 LLC became a wholly owned subsidiary of the Company and continues to hold the Company’s share of the assets of 1347 LLC as agreed to in the Redemption Agreement.

Pursuant to the terms of the Redemption Agreement, Itasca received (via 1347 LLC) approximately US\$9 million cash, 61,770 common shares of Limbach, and 154,333 \$11.50 exercise price warrants of Limbach as part of final distribution from 1347 LLC to its investors.

### ***Accounting***

Prior to the closing of the Redemption Agreement, the Investment was recorded by the Company at its fair value through profit and loss under the provisions of IAS 28 pertaining to investments in associates held by or held through entities similar to venture capital organizations, mutual fund or unit trusts. The fair value of the Investment was historically calculated based on an internally developed valuation model (“Model”) that calculated the distribution of net equity of 1347 LLC (based on fair valuing the Limbach securities held by 1347 LLC) to all classes of membership interests based on the distribution waterfall in the Operating Agreement of 1347 LLC. In other words, this fair value calculated by the Model represented the amount that Itasca and other investors of 1347 LLC would receive if 1347 LLC were to settle all its assets (Limbach securities) and liabilities at the given fair value and then distribute the net proceeds to investors in accordance with its Operating Agreement. Management considered such distribution estimate at any given

point in time a proxy for the value at which unrelated and willing parties would trade such an investment, hence such distribution estimate represented the fair value of the Investment in 1347 LLC prior to the closing of the Redemption Agreement. The Redemption Agreement closed on November 19, 2019, after which the financial statements of 1347 LLC were consolidated with the Company's financial statements resulting in the Company's share of Limbach securities (held at 1347 LLC) being reported as marketable securities.

As of September 30, 2020, there are no contractual or regulatory restrictions applicable to Itasca or 1347 LLC that would restrict the ability of Itasca or 1347 LLC to transfer cash and assets to and from the other entity.

### ***Marketable Securities***

Upon closing of the Redemption Agreement (as described above), in addition to approximately US\$9 million cash, the Company received (via 1347 LLC) 61,770 common shares and 154,333 \$11.50 exercise price warrants of Limbach, through its subsidiary 1347 LLC. The Company sold 61,770 common shares during third quarter of 2020, which generated a realized gain of \$346,824. Itasca continues to hold the Limbach warrants through its subsidiary 1347 LLC as of September 30, 2020, which are classified as marketable securities and measured at fair value based on the quoted market prices. The temporary changes in fair value are recognized as unrealized gains or losses and reported in profit or loss.

Changes to the balance of marketable securities are summarized as follows:

	<b>Carrying Value</b>
	<b>\$</b>
December 31, 2019	\$333,270
Change in fair value recorded in profit or loss	79,229
Sale proceeds	(650,759)
Realized gain on sale	346,824
Foreign currency translation recorded in other comprehensive loss	6,478
September 30, 2020	\$115,042

The Company's management exercises judgment to determine whether the investment in marketable securities has been impaired and, if so, the value of the impairment and whether the impairment is temporary. In exercising such judgment, management considers factors such as its intentions and ability to hold or dispose of such securities, prevailing market prices, length of time the position has been in an unrealized loss position, valuation analysis available from asset managers (if any), trading patterns of the security, and general market conditions. There were no write-downs recorded during nine months ended September 30, 2020 and during year ended December 31, 2019.

### **Analysis of the Company's Financial Performance and Condition**

Itasca does not have any current operations and hence does not generate operating revenue. The Redemption Agreement closed on November 19, 2019 whereby all investors of 1347 LLC (except Itasca) received a liquidating distribution whereby members receiving such liquidating distribution ceased to be members of 1347 LLC effective November 19, 2019. Upon closing of the Redemption Agreement, 1347 LLC became a wholly owned subsidiary of the Company and continues to hold the Company's share of the assets of 1347 LLC (cash and marketable securities) as agreed to in the Redemption Agreement. As a publicly listed company, Itasca incurred expenses for professional fees and other general and administrative expenses. Through September 30, 2020, Itasca also incurred legal and other expenses in connection with the Acquisition, Private Placement and other legal matters, which have been recorded in accordance with the IFRS. For the nine months ended September 30, 2020, the Company reported net loss of \$722,342 due to \$1,168,473 general and administrative expenses incurred, partially mitigated by \$346,824 realized gain on sale of marketable securities, \$79,242 unrealized gain on marketable securities and \$20,065 foreign exchange gain.

As of September 30, 2020, the Company held \$1,493,313 in cash as compared to \$12,911,993 held as of December 31, 2019, a decrease of \$11,418,680. This decrease is primarily due to cash deposited in escrow in anticipation of closing of the Acquisition, which amounted to \$11,665,118 as of September 30, 2020, and payments made for Company's general and administrative expenses, partially mitigated by the increase due to foreign currency translation difference pertaining to conversion of US dollar denominated balances of the Company and 1347 LLC.

The Company has no source of revenue and its ability to continue as a going concern in the long term depends upon whether it develops profitable operations, successfully liquidate its investment in marketable securities or raise adequate financing. As of September 30, 2020, the Company has sufficient liquidity resources to meet its financial obligations and current operating requirements for at least the next twelve months.

The Company announced on September 17, 2020 its intent to complete a non-brokered Private Placement financing of 2,000,000 Units at a purchase price of \$0.50 per Unit and of 4,000 Convertible Debentures at a purchase price of \$1,000 per Convertible Debenture for aggregate gross proceeds of \$5,000,000. The Company closed the Private Placement on October 22, 2020.

Each Unit is comprised of one common share and one common share purchase warrant of Itasca (the "Warrant"). Each Warrant entitles the holder thereof to purchase one common share at a purchase price of \$0.60 until the date that is five years after the date that the Warrant is issued. Each Unit is immediately separable into one common share and one warrant upon issuance.

Each Convertible Debenture is secured and has a maturity date of two years from the date of issuance. The Convertible Debentures bear interest at a rate of 4% per annum until the completion of a Qualified Investment (as defined below) and 2% per annum thereafter; *provided that*, if the Requisite Approval (as defined below) is not obtained on or before December 31, 2020, the interest rate shall be increased by ten percentage points in each case, to 14% and 12%, respectively. If, prior to the maturity date, Itasca closes an investment in excess of \$25,000,000 (a "Qualified Investment") the principal amount of each Convertible Debenture will, subject to the limitations described below, automatically convert at maturity into Units at a price of \$0.50 per Unit (provided that the term of any Warrant issued in connection therewith will be limited to 5 years from the date of issuance of the Convertible Debenture). Accrued but unpaid interest on the Convertible Debentures will also automatically convert at maturity into Units upon a Qualified Investment in accordance with the policies of the TSXV and subject to TSXV approval. Unless and until shareholders of Itasca approve the issuance of the Convertible Debentures in accordance with the policies of the TSXV (the "Requisite Approval"), the Convertible Debentures will only be convertible to the extent that the issuance of the common shares issuable on conversion of the Convertible Debentures and exercise of the associated Warrants do not result in the holder thereof holding 20% or more of issued and outstanding common shares of Itasca. If the Company fails to complete a Qualified Investment prior to the date that is 6 months following the issuance of the Convertible Debenture, the holder thereof may require Itasca to redeem and repurchase the Convertible Debenture for their face amount plus all accrued and unpaid interest.

The securities issued pursuant to the Private Placement will be subject to a statutory hold period, which will expire four months plus a day from the date of issuance.

#### *Results of Operations – Three Months Ended September 30, 2020*

The Company reported net loss of \$353,500 (\$0.02 loss per share) and total comprehensive loss of \$640,657 for the three months ended September 30, 2020 compared to net loss and total comprehensive loss of \$726,570 (\$0.03 loss per share) for the same period in 2019. The primary contributors to the decrease in total comprehensive loss are as follows:

- Realized gain from sale of marketable securities for the three months ended September 30, 2020 amounted to \$346,824. There was no such realized gain recorded for the same period during 2019.

- Change in unrealized gain from marketable securities for the three months ended September 30, 2020 amounted to \$102,801 as compared to change in unrealized loss from investment in 1347 LLC of \$770,834 for the same period in 2019.

Partially offsetting the effect of the above stated items were the following changes:

- Other comprehensive loss of \$287,157 reported for the three months ended September 30, 2020, due to currency translation difference pertaining to conversion of US dollar denominated balances of 1347 LLC. No such loss was incurred for the same period in 2019.
- Foreign exchange loss of \$26,598 recorded during the three months ended September 30, 2020 as compared to foreign exchange gain of \$158,930 for the same period in 2019. This change is related to USD cash balance held at Itasca, 1347 LLC and US dollar denominated expenses of Itasca.
- Total general and administrative expenses increased from \$114,666 for the three months ended September 30, 2019 to \$776,527 for the three months ended September 30, 2020. This change is primarily due to the legal fees incurred by the Company pertaining to the acquisition related activities.

#### *Results of Operations – Nine Months Ended September 30, 2020*

The Company reported net loss of \$722,342 (\$0.03 loss per share) and total comprehensive loss of \$417,014 for the nine months ended September 30, 2020 compared to net income and total comprehensive income of \$256,143 (\$0.01 diluted earnings per share) for the same period in 2019. The primary contributors to the decrease in total comprehensive income are as follows:

- Change in unrealized gain from marketable securities for the nine months ended September 30, 2020 amounted to \$79,242 as compared to change in unrealized gain from investment in 1347 LLC of \$1,101,751 for the same period in 2019.
- Total general and administrative expenses increased from \$447,005 for the nine months ended September 30, 2019 to \$1,168,473 for the nine months ended September 30, 2020. This increase is primarily due to the legal fees incurred by the Company pertaining to the acquisition related activities.

Partially offsetting the effect of the above stated items were the following changes:

- Foreign exchange gain of \$20,065 recorded during the nine months ended September 30, 2020 as compared to foreign exchange loss of \$398,603 for the same period in 2019. This change is related to USD cash balance held at Itasca, 1347 LLC and US dollar denominated expenses of Itasca.
- Realized gain from sale of marketable securities for the nine months ended September 30, 2020 amounted to \$346,824. There was no such realized gain during the same period in 2019.
- Other comprehensive income of \$305,328 reported for the nine months ended September 30, 2020, generated due to currency translation difference pertaining to conversion of US dollar denominated balances of 1347 LLC. No such income was generated for the same period in 2019.

#### **Related Party Transactions**

##### *Key management compensation*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and Board of Director members.

The Company incurred the following remuneration for key management personnel:

	<b>Nine Months Ended September 30, 2020</b>	<b>Nine Months Ended September 30, 2019</b>
	\$	\$
Fees and stock options expense incurred for Directors	47,353	54,167
Fees incurred for services of Chief Executive Officer	183,728	122,944
Fees incurred for services of Chief Financial Officer	174,031	130,272

During 2020, 160,000 stock options previously granted to certain directors expired without being exercised. On September 4, 2020, the Company's Board of Directors granted 1,701,000 stock options under Itasca's stock option plan ("Plan") to certain of Company's directors and officers to acquire up to an aggregate of 1,701,000 common shares. Each of the options are exercisable for a period of seven years from the date of grant at an exercise price of \$0.60 per common share. All the options vested immediately upon being granted. On October 22, 2020, the Company issued 160,000 stock options to certain of its directors to purchase up to an aggregate of 160,000 common shares of Itasca pursuant to the Company's Plan. These stock options are exercisable for a period of seven years from the date of grant at an exercise price of \$0.48 per common share and vested immediately upon being granted.

#### *Management Services Agreement*

The Company entered into an MSA with KFS on June 10, 2016. Pursuant to the MSA, KFS had been providing, for an annual service fee of \$1.00, management and administrative services to Itasca, including services of Chief Executive Officer, Chief Financial Officer and Corporate Secretary and was entitled to expense reimbursement of up to \$40,000 per annum for use of KFS's other staff and resources. KFS was a related entity by virtue of providing key management personnel services to Itasca as well as a significant shareholder of Itasca (while the MSA was in effect) whereby Itasca was an associate of KFS. Effective January 31, 2019 the MSA was terminated and Itasca entered into new executive services agreements directly with wholly owned entity of each Larry Swets, Jr. and Hassan Baqar, who are continuing in their roles as Chief Executive Officer and Chief Financial Officer of Itasca, respectively. Prior to 1347 LLC becoming a wholly owned subsidiary of Itasca, 1347 LLC had entered into the Baqar 1347 MSA, which continues to be in effect.

Pursuant to the Swets MSA, the Company paid a fee of USD \$50,000 at execution of the Swets MSA, which is payable at every subsequent renewal of the term of the Swets MSA. Itasca also pays USD \$1,666 per month for administrative support and USD \$2,500 per month as reimbursement of office expenses pursuant to the Swets MSA.

Pursuant to the Baqar MSA, the Company pays on a monthly basis i) a fee of USD \$10,416.66, ii) USD \$833.33 for administrative support, and iii) USD \$1,000 as reimbursement of office expenses. Pursuant to the Baqar 1347 MSA, the Company pays on a monthly basis USD \$2,083.33 for services provided.