

# **ITASCA CAPITAL LTD.**

## **Condensed Consolidated Interim Financial Statements (unaudited)**

(Expressed in Canadian dollars, unless indicated otherwise)

**For the nine months ended September 30, 2020 and 2019**

### **Management's Comments on Unaudited Condensed Consolidated Interim Financial Statements**

The accompanying unaudited condensed consolidated interim financial statements of Itasca Capital Ltd. as at and for the nine months ended September 30, 2020 have been prepared by management and approved by the Board of Directors of the Company.

# ITASCA CAPITAL LTD.

## Condensed Consolidated Interim Statements of Financial Position

Expressed in Canadian dollars

	September 30, 2020 (unaudited) \$	December 31, 2019 (audited) \$
<b>Assets</b>		
<b>Current assets</b>		
Cash on deposit	11,665,118	-
Cash	1,493,313	12,911,993
Marketable securities (note 4)	115,042	333,270
Prepaid expenses	81,111	40,221
<b>Total current assets</b>	<b>13,354,584</b>	<b>13,285,484</b>
<b>Total assets</b>	<b>13,354,584</b>	<b>13,285,484</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	727,001	176,167
<b>Total liabilities</b>	<b>727,001</b>	<b>176,167</b>
<b>Shareholders' equity (note 5)</b>		
Share capital	37,512,495	37,589,568
Equity reserves	77,353	65,000
Accumulated other comprehensive income (loss)	66,262	(238,469)
Deficit	(25,028,527)	(24,306,782)
<b>Total shareholders' equity</b>	<b>12,627,583</b>	<b>13,109,317</b>
<b>Total liabilities and shareholders' equity</b>	<b>13,354,584</b>	<b>13,285,484</b>

### On behalf of the Board:

Signed: "Larry G. Swets, Jr." \_\_\_\_\_ Director

Signed: "Andrew McIntyre" \_\_\_\_\_ Director

The notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

# ITASCA CAPITAL LTD

## Condensed Consolidated Interim Statements of Profit or Loss and Other Comprehensive Income (unaudited)

Expressed in Canadian dollars

	Three Months Ended September 30, 2020 \$	Three Months Ended September 30, 2019 \$	Nine Months Ended September 30, 2020 \$	Nine Months Ended September 30, 2019 \$
<b>General and administrative expenses</b>				
Professional fees	740,097	87,456	1,048,459	362,491
Directors' fees and benefits	12,353	19,167	47,353	54,167
Transfer agent, exchange listing and shareholder information	36,388	2,069	48,399	14,306
Office and corporate administration	(12,311)	5,974	24,262	16,041
<b>Total general and administrative expenses</b>	<b>(776,527)</b>	<b>(114,666)</b>	<b>(1,168,473)</b>	<b>(447,005)</b>
<b>Other income (expenses)</b>				
Realized gain on investment	346,824	-	346,824	-
Change in unrealized gain (loss)	102,801	(770,834)	79,242	1,101,751
Foreign exchange (loss) gain	(26,598)	158,930	20,065	(398,603)
<b>Total other income (expense)</b>	<b>423,027</b>	<b>(611,904)</b>	<b>446,131</b>	<b>703,148</b>
<b>Net (loss) income for the period</b>	<b>(353,500)</b>	<b>(726,570)</b>	<b>(722,342)</b>	<b>256,143</b>
Other comprehensive (loss) income	(287,157)	-	305,328	-
<b>Total comprehensive (loss) income for the period</b>	<b>(640,657)</b>	<b>(726,570)</b>	<b>(417,014)</b>	<b>256,143</b>
<b>Basic (loss) earnings per share (note 5)</b>	<b>(0.02)</b>	<b>(0.03)</b>	<b>(0.03)</b>	<b>0.01</b>
<b>Diluted (loss) earnings per share (note 5)</b>	<b>(0.02)</b>	<b>(0.03)</b>	<b>(0.03)</b>	<b>0.01</b>

The notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

## ITASCA CAPITAL LTD.

### Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (unaudited)

Expressed in Canadian dollars

	Share Capital	Equity Reserves	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total
	\$	\$	\$	\$	\$
<b>December 31, 2018</b>	37,589,568	65,000	-	(24,354,227)	13,300,341
Net income	-	-	-	256,143	256,143
<b>September 30, 2019</b>	37,589,568	65,000	-	(24,098,084)	13,556,484
Net loss	-	-	-	(208,698)	(208,698)
Other comprehensive loss	-	-	(238,469)	-	(238,469)
<b>December 31, 2019</b>	37,589,568	65,000	(238,469)	(24,306,782)	13,109,317
Net loss	-	-	-	(722,342)	(722,342)
Other comprehensive income	-	-	304,731	597	305,328
Options issued	-	12,353	-	-	12,353
Share issue cost	(77,073)	-	-	-	(77,073)
<b>September 30, 2020</b>	37,512,495	77,353	66,262	(25,028,527)	12,627,583

The notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

# ITASCA CAPITAL LTD.

## Condensed Consolidated Interim Statements of Cash Flows (unaudited)

Expressed in Canadian dollars

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	\$	\$
<b>Cash provided by (used in):</b>		
<b>Operating activities:</b>		
Net (loss) income	(722,342)	256,143
Adjustments for:		
Change in unrealized gain	-	(1,101,751)
Foreign exchange loss	305,328	346,549
Option grant	12,353	-
Changes in working capital:		
Marketable securities	218,228	-
Accounts payable and accrued liabilities	550,834	(76,834)
Prepaid expenses	(40,890)	(4,816)
<b>Total cash provided by (used in) by operating activities</b>	<b>323,511</b>	<b>(580,709)</b>
<b>Investing activities</b>		
Cash on deposit	(11,665,118)	-
<b>Total cash used in investing activities</b>	<b>(11,665,118)</b>	<b>-</b>
<b>Financing activities</b>		
Share issue cost	(77,073)	-
<b>Total cash used in financing activities</b>	<b>(77,073)</b>	<b>-</b>
<b>Change in cash</b>	<b>(11,418,680)</b>	<b>(580,709)</b>
<b>Cash, beginning of the period</b>	<b>12,911,993</b>	<b>1,853,689</b>
<b>Cash, end of the period</b>	<b>1,493,313</b>	<b>1,272,980</b>

The notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

# ITASCA CAPITAL LTD.

## Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

Expressed in Canadian dollars

For the nine months ended September 30, 2020 and 2019

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### 1. NATURE OF OPERATIONS

Itasca Capital Ltd. (the “Company” or “Itasca”) is an entity with 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 Note 4 - Marketable Securities & Investment in Associate. 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 Note 6 – 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.

The Company is registered in British Columbia, and the address of its principal place of business is 1800 – 510 West Georgia Street, Vancouver, British Columbia, V6B 0M3. The Company’s shares are listed on the TSX Venture Exchange (the “TSXV”) under the symbol “ICL”.

### 2. BASIS OF PREPARATION

#### *Statement of compliance*

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs as issued by IASB) applicable to the preparation of interim financial statements, including IAS 34 – Interim Financial Reporting. These financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the fiscal year ended December 31, 2019.

These unaudited condensed consolidated interim financial statements are prepared using IFRS in effect for fiscal years beginning on or after January 1, 2020. Significant accounting policies and the applicable basis of measurement used

# ITASCA CAPITAL LTD.

## Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

Expressed in Canadian dollars

For the nine months ended September 30, 2020 and 2019

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in the preparation of these unaudited condensed consolidated interim financial statements are stated in Note 2 as being the same as disclosed in the Company's audited consolidated financial statements for the fiscal year ended December 31, 2019.

These consolidated financial statements were authorized by the Board of Directors on November 23, 2020.

### ***Basis of consolidation***

These unaudited condensed consolidated interim financial statements include the balances and results of the Company and those entities over which the Company exercises control:

<b>Subsidiary</b>	<b>Jurisdiction</b>	<b>Direct or Indirect Ownership</b>
Kobex Resources Ltd.	British Columbia, Canada	100%
1347 Investors LLC	Delaware, USA	100%

Control is achieved where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain the benefits from its operations. Kobex Resources Ltd. was dormant during the nine months ended September 30, 2020 and year ended December 31, 2019. Itasca established control over 1347 LLC on November 19, 2019 upon the closing of Distribution and Redemption Agreement (as discussed below), and accordingly the financial statements of 1347 LLC have been consolidated with Itasca's financial statements starting November 20, 2019.

All transactions between consolidated entities are eliminated in the consolidation of these financial statements.

### ***Basis of measurement***

These financial statements have been prepared using the accrual basis of accounting

### ***Use of estimates and judgments***

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities and provisions, income and expenses and the disclosure of contingent assets and liabilities at the date of these financial statements.

The Company's management exercises judgment to determine whether the investment in marketable securities (Note 4) 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 and general market conditions. For detailed discussion, see Note 4 – Marketable Securities & Investment in Associate.

The Company's management also exercises judgment regarding the valuation of deferred income tax assets. Specifically, judgments are made as to whether objective evidence exists that the Company will have sufficient future taxable income to realize any benefit from these assets.

Actual results may differ from these estimates and judgments made by the Company's management.

### ***Functional and foreign currency***

These unaudited condensed consolidated interim financial statements are presented in Canadian dollars, the functional currency of the Company and its subsidiary Kobex Resources Ltd. The functional currency of 1347 LLC is US dollars;

# ITASCA CAPITAL LTD.

## Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

Expressed in Canadian dollars

For the nine months ended September 30, 2020 and 2019

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accordingly its financial statements are converted into Canadian dollars for purposes of consolidation. All financial information is presented in Canadian dollars (unless indicated otherwise) and is rounded to the nearest dollar.

Transactions in currencies other than the Canadian dollar are recorded at the rates of exchange prevailing on the dates of the transactions or at average rates of exchange in accordance with the IFRS. At the end of each reporting period, monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in the foreign currency are only translated at the date of the transaction and not re-translated at subsequent period end. Company translates the assets and liabilities of its subsidiary 1347 LLC from US dollar to Canadian dollar using the closing foreign exchange rate at end of the reporting period. The foreign exchange gains and losses are recorded through profit and loss and foreign currency translation differences are recorded through other comprehensive income in accordance with IAS 21 – The Effect of Changes in Foreign Exchange Rates.

### *Continuance of operations*

These unaudited condensed consolidated interim financial statements have been prepared in accordance with IFRS on the assumption that the Company will realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation and do not reflect adjustments that would be necessary if the going concern assumption was not appropriate.

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. Management has concluded that the Company has sufficient liquidity resources to continue as a going concern for at least the next twelve months from the statement of financial position date.

### **3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES**

These unaudited condensed consolidated interim financial statements have been prepared according to the same accounting policies and are subject to the same areas of judgment, measurement estimates and uncertainties as those disclosed in Note 3 of the Company's audited consolidated financial statements for the fiscal year ended December 31, 2019.

### **4. MARKETABLE SECURITIES & INVESTMENT IN ASSOCIATE**

#### *Investment in Associate*

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

# ITASCA CAPITAL LTD.

## Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

Expressed in Canadian dollars

For the nine months ended September 30, 2020 and 2019

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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

# ITASCA CAPITAL LTD.

## Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

Expressed in Canadian dollars

For the nine months ended September 30, 2020 and 2019

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September 30, 2020	\$115,042
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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.

## 5. SHAREHOLDERS' EQUITY

### *Share capital*

#### *Authorized*

- Unlimited number of common voting shares with no par value.
- 100,000,000 preferred shares with no par value.

#### *Issued and outstanding*

Changes to common shares and share capital issued and outstanding are as follows:

	<b>Number of Common Shares</b>	<b>Amount</b>
		\$
Outstanding, December 31, 2018 and 2019	21,810,626	37,589,568
Share issue cost	-	(77,073)
Outstanding September 30, 2020	21,810,626	37,512,495

There were no changes to issued and outstanding common shares of the Company during year ended December 31, 2019 and nine months ended September 30, 2020.

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

# ITASCA CAPITAL LTD.

## Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

Expressed in Canadian dollars

For the nine months ended September 30, 2020 and 2019

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.

### *Equity reserves and share-based compensation*

The Company established a rolling stock option plan (the "Plan") effective on June 2, 2003, which was amended June 20, 2012 to reflect the TSXV policies and practices. The maximum number of common shares which can be reserved for issuance under the Plan is 10% of the prevailing issued and outstanding shares of the Company. Stock options granted under the Plan are exercisable for a period no longer than ten years, although the vesting terms, if any and expiry period are at the discretion of the Company's Board of Directors. During 2020, 160,000 stock options previously granted expired without being exercised.

On September 4, 2020, the Company's Board of Directors granted 1,701,000 stock options under the 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 of the options vested immediately upon being granted.

Following are the outstanding stock options as of September 30, 2020:

	Number of Stock Options	Weighted Average Exercise Price \$
<b>Outstanding options as of December 31, 2019</b>	480,000	1.00
Option expired	(160,000)	1.00
Option grant to directors and officers	1,701,000	0.60
<b>Outstanding options as of September 30, 2020</b>	2,021,000	

On September 7, 2017, the Board of Directors granted 80,000 options to each director, for a total of 480,000 options, under the Company's stock option plan for a term of 10 years with an exercise price of \$1.00 per option. The stock options granted to directors were in lieu of the directors' cash fee that had been accrued and unpaid as of June 30, 2017 and vested immediately. 160,000 of these options expired during 2020 unexercised. The Company uses Black-Scholes model to calculate the estimated fair value of the options as of the grant date. An aggregate value of \$65,000 was estimated for the 480,000 options granted on September 7, 2017 using the following inputs:

<b>Option Valuation</b>	
Expected life	10 years
Exercise price	\$1.00
Volatility	20.5%
Underlying price of common share on the grant date	\$0.68
Option price	\$0.13

# ITASCA CAPITAL LTD.

## Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

Expressed in Canadian dollars

For the nine months ended September 30, 2020 and 2019

For the 1,701,000 stock options granted on September 4, 2020, an aggregate value of \$34,020 was estimated on the grant date using the Black-Scholes model based on the following inputs:

<b>Option Valuation</b>	
Expected life	7 years
Exercise price	\$0.60
Volatility	10%
Underlying price of common share on the grant date	\$0.455
Option price	\$0.02

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.

### *Earnings (loss) per share*

The numerators and denominators of basic and diluted earnings (loss) per share for September 30, 2020 and 2019 are as follows:

	<b>Three Months Ended September 30, 2020</b>	<b>Three Months Ended September 30, 2019</b>	<b>Nine Months Ended September 30, 2020</b>	<b>Nine Months Ended September 30, 2019</b>
	\$			\$
Net (loss) earnings - numerator	(353,500)	(726,570)	(722,342)	256,143
Basic weighted average number of common shares outstanding - denominator	21,810,626	21,810,626	21,810,626	21,810,626
Diluted weighted average number of common shares outstanding - denominator	21,810,626	21,810,626	21,810,626	22,290,626
<b>Basic (loss) earnings per share</b>	<b>(0.02)</b>	<b>(0.03)</b>	<b>(0.03)</b>	<b>0.01</b>
<b>Diluted (loss) earnings per share</b>	<b>(0.02)</b>	<b>(0.03)</b>	<b>(0.03)</b>	<b>0.01</b>

In the periods when net losses are incurred, no impact of dilutive securities is included in the calculation of diluted weighted average number of common shares outstanding.

### *Shareholder dividends*

There were no shareholder dividends declared during nine months ended September 30, 2020 and during year ended December 31, 2019.

## 6. 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:

# ITASCA CAPITAL LTD.

## Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

Expressed in Canadian dollars

For the nine months ended September 30, 2020 and 2019

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	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	\$	\$
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

### 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.

## 7. CAPITAL RISK MANAGEMENT

The Company defines capital as the items included in shareholders' equity. The Company's objectives in managing capital are to safeguard its ability to continue as a going concern and to provide returns for shareholders and benefits for other stakeholders. To meet these objectives, the Company will ensure it has sufficient cash resources and financial flexibility to pursue future investments or fund potential business acquisitions.

To support these objectives, the Company manages its capital structure and makes any necessary adjustments to it in light of changes in economic conditions and risk characteristics of underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

The Company is not subject to any externally imposed capital requirements.

## 8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As of September 30, 2020, the Company held marketable securities amounting to \$115,042 and cash in the amount of \$1,493,313. The Company also had \$11,665,118 cash on deposit in connection with the anticipated closing of the Acquisition. For a detailed discussion regarding marketable securities, see Note 4 – Marketable Securities & Investment in Associate. In addition to the marketable securities, cash and cash on deposit stated above, the financial

# ITASCA CAPITAL LTD.

## Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

Expressed in Canadian dollars

For the nine months ended September 30, 2020 and 2019

instruments of the Company comprise of accounts payable & accrued liabilities in the amount of \$727,001 as of September 30, 2020. With the exception of marketable securities, all financial instruments are measured at amortized cost. The fair values of these financial instruments approximate their carrying value due to their short-term maturities.

The levels of the fair value hierarchy are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs that are not based on observable market data (unobservable inputs).

Financial instruments measured at fair value on the balance sheet as of September 30, 2020 are summarized in levels of fair value hierarchy as follows:

	Level 1	Level 2	Level 3
	\$	\$	\$
Marketable securities - at fair value	115,042	-	-

Financial instruments measured at fair value on the balance sheet as of September 30, 2019 are summarized in levels of fair value hierarchy as follows:

	Level 1	Level 2	Level 3
	\$	\$	\$
Investment in associate – at fair value	-	\$12,369,380	-

### *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's maximum exposure to credit risk is attributed to the following:

	September 30, 2020	September 30, 2019
	\$	\$
Cash	1,493,313	1,272,980
Cash on deposit	11,665,118	-
Prepaid expenses	81,111	11,391
Total	13,239,542	1,284,371

### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. As of September 30, 2020, the Company's liquidity resources are sufficient to meet its financial obligations and current operating requirements for the next 12 months.

### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As of September 30, 2020, the Company does not hold any financial instruments that have material exposure to interest rate risk.

# ITASCA CAPITAL LTD.

## Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

Expressed in Canadian dollars

For the nine months ended September 30, 2020 and 2019

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### *Concentration risk*

As of September 30, 2020, the Company held an aggregate of \$13,158,431 in cash and cash on deposit, representing 98.5% of the total assets and 104.2% of the total shareholders' equity.

### *Currency risk*

As of September 30, 2020, Itasca held USD\$1,081,290 in cash and USD\$86,426 in US dollar denominated marketable securities. There is currently no currency hedge in place, due to which the Company has exposure to foreign exchange translation gains and losses. The Company recorded a net foreign exchange translation gain of \$20,065 through profit or loss and a \$305,328 currency translation difference as other comprehensive income for the nine months ended September 30, 2020. A 1% change in the US dollar foreign exchange rate would result in a change of \$14,393 in the carrying value of USD cash and \$1,150 in the carrying value of marketable securities held.

## 9. SUBSEQUENT EVENTS

As discussed above, on September 17, 2020 Company announced that 1347 LLC has agreed to acquire, for considerations of \$11,500,000 in cash, a sawmill and related assets located in Kenora, Ontario. The Acquisition closed on October 6, 2020.

In connection with the Acquisition, Company also announced on September 17, 2020 its intent to complete the Private Placement 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. Concurrently with the closing of the Private Placement, each of Mr. Paul Rivett and Rick Doman were appointed to Itasca's Board of Directors.

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.