



# STRATEGEM CAPITAL

*Strength Through Strategy*

## **STRATEGEM CAPITAL CORPORATION**

### **FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020**

(Unaudited – Prepared by Management)

Suite 210 - 240 11 Ave. SW, Calgary, Alberta, T2R 0C3

TSX-v: SGE

# STRATEGEM CAPITAL CORPORATION

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## Contents

	<u>Page</u>
Notice of No Auditors' Review of Condensed Interim Financial Statements	3
Condensed Interim Statements of Financial Position	4
Condensed Interim Statements of Comprehensive Income (Loss)	5
Condensed Interim Statements of Changes in Equity	6
Condensed Interim Statements of Cash Flows	7
Notes to the Condensed Interim Financial Statements	8 – 15

## **STRATEGEM CAPITAL CORPORATION**

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### **NOTICE OF NO AUDITOR'S REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited interim financial statements of Strategem Capital Corporation (the "Company") for the nine months ended September 30, 2020 have been prepared by the management of the Company and approved by the Company's Audit & Corporate Governance Committee and the Company's Board of Directors.

Under National Instruments 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

**STRATEGEM CAPITAL CORPORATION**  
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

	Notes	September 30, 2020	December 31, 2019
		(Unaudited)	(Audited)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 8,911	\$ 9,484
Investments	4	2,409	2,234
Prepaid expenses and deposits		-	21
<b>Total current assets</b>		11,321	11,739
<b>TOTAL ASSETS</b>		\$ 11,321	\$ 11,739
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 18	\$ 19
Due to related parties	7	21	21
Income tax payable		-	476
<b>Total current liabilities</b>		40	516
<b>EQUITY</b>			
Share capital	5	1	1
Retained earnings		11,280	11,222
<b>Total equity</b>		11,281	11,223
<b>TOTAL EQUITY AND LIABILITIES</b>		\$ 11,321	\$ 11,739

Commitments (Note 8)

These financial statements were authorized for issue by the Board of Directors on November 25, 2020.

They are signed on the Company's behalf by:

(signed) "Stockwell Day"  
Director

(signed) "Desmond Balakrishnan"  
Director

**STRATEGEM CAPITAL CORPORATION**  
**CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE DATA)  
(Unaudited)

		Three months ended September 30,		Nine months ended September 30,	
	Notes	2020	2019	2020	2019
<b>Revenues</b>					
Interest, dividends and other income		\$ 10	\$ 46	\$ 64	\$ 210
Gain (loss) on sale of investments, net		-	(34)	-	1,469
Unrealized gain (loss) on investments, net		33	18	169	(1,041)
<b>Total revenues</b>		<b>43</b>	<b>30</b>	<b>233</b>	<b>638</b>
<b>Expenses</b>					
Management fees	7	29	29	87	87
Director fees	7	11	11	32	32
Legal, accounting and audit		8	8	52	42
Office and occupancy	7	4	5	12	15
Shareholder information and filing fees		4	1	17	19
<b>Total expenses</b>		<b>55</b>	<b>54</b>	<b>199</b>	<b>194</b>
<b>Other items</b>					
Refund arrears interests and penalties		-	-	4	-
Foreign exchange gain (loss)		(16)	(41)	20	(57)
<b>Total other items</b>		<b>(16)</b>	<b>(41)</b>	<b>24</b>	<b>(57)</b>
<b>Income (loss) before income taxes</b>		<b>(28)</b>	<b>(66)</b>	<b>58</b>	<b>386</b>
Income tax recovery (expense)		-	18	-	(481)
Deferred income tax recovery		-	-	-	395
<b>Net income tax recovery (expense)</b>		<b>-</b>	<b>18</b>	<b>-</b>	<b>(86)</b>
<b>Net income (loss) and comprehensive income (loss) for the period</b>		<b>\$ (28)</b>	<b>\$ (48)</b>	<b>\$ 58</b>	<b>\$ 300</b>
Earnings (loss) per share - basic and diluted	6	\$ (0.01)	\$ (0.01)	\$ 0.01	\$ 0.07

**STRATEGEM CAPITAL CORPORATION**  
**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)  
(Unaudited)

		Class A	Class B	Class B	Retained	Total	
		Number	Share	Number of	Share	Earnings	Equity
		of Shares	Capital	Shares	Capital		
Issued and outstanding							
<b>Balance as at January 1, 2019 (Audited)</b>		4,321,699	\$ -	220	\$ 1	\$ 10,970	\$ 10,971
Net income for the period		-	-	-	-	300	300
<b>Balance as at September 30, 2019 (Unaudited)</b>		4,321,699	-	220	1	11,270	11,271
Net (loss) for the period		-	-	-	-	(48)	(48)
<b>Balance as at December 31, 2019 (Audited)</b>		4,321,699	-	220	1	11,222	11,223
Net income for the period		-	-	-	-	58	58
<b>Balance as at September 30, 2020 (Unaudited)</b>		4,321,699	\$ -	220	\$ 1	\$ 11,280	\$ 11,281

**STRATEGEM CAPITAL CORPORATION**  
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**  
(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)  
(Unaudited)

	<b>Nine months ended</b>	
	<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash flow from operating activities</b>		
Net income	\$ 58	\$ 300
Adjustments to reconcile to net cash flows from operating activities:		
(Gain) on sale of investments, net	-	(1,469)
Unrealized (gain) loss on investments, net	(169)	1,041
Non-cash dividend income	(6)	-
Foreign exchange (gain)	(46)	-
Deferred income tax recovery	-	(395)
	(163)	(523)
Changes in non-cash working capital items:		
Prepaid expenses and deposits	21	1
Accounts payable and accrued liabilities	(1)	(29)
Income tax payable	(476)	481
	(456)	453
Changes in other items:		
Proceeds from sale of investments	-	9,096
Purchase of investments	-	(249)
	-	8,847
<b>Net cash provided by (used in) operating activities</b>	<b>(619)</b>	<b>8,778</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>46</b>	<b>-</b>
<b>Net change in cash and cash equivalents</b>	<b>(573)</b>	<b>8,778</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>9,484</b>	<b>2,957</b>
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 8,911</b>	<b>\$ 11,735</b>

**STRATEGEM CAPITAL CORPORATION**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**  
(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE NOTED)  
(Unaudited)

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**1. Nature of operations and continuance of operations**

The Company was incorporated as Dexton Technologies Corporation on December 19, 1994. On November 19, 2001, the Company changed its name to Strategem Capital Corporation. The address of the Company's registered office is Suite 201, 240 11 Avenue SW, Calgary, Alberta, T2R 0C3. The Company is a publicly - listed investment holding company whose investment objective is to own and manage operating businesses. The Company trades under the symbol "SGE" on the TSX Venture Exchange (the "TSV-v" or the "Exchange").

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. During the nine months ended September 30, 2020, the Company reported a net income of \$57 (2019 – net income of \$386). At September 30, 2020, the Company had cash and cash equivalents of \$8.9 million (December 31, 2019 - \$9.5 million) and working capital of \$11.3 million (December 31, 2019 - \$11.2 million).

**2. Basis of preparation**

**(a) Statement of compliance**

These condensed interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 "Interim Financial Reporting" ("IAS 34") using accounting policies consistent with the IFRS issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

**(b) Basis of preparation**

These condensed interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's December 31, 2019 annual financial statements.

The preparation of interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. These condensed interim financial statements do not include all of the information required for full annual financial statements.

These condensed interim financial statements, including comparatives, have been prepared on the basis of IFRS standards that are published at the time of preparation.

**3. Significant accounting policies**

These unaudited interim financial statements do not include all note disclosures required by IFRS for annual financial statements, and therefore should be read in conjunction with the annual financial statements for the year ended December 31, 2019. In the opinion of management, all adjustments considered necessary for fair presentation of the Company's financial position, results of operations and cash flows have been included. Operating results for the nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020.



**STRATEGEM CAPITAL CORPORATION**  
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**4. Investments**

The Company held the following investments as at September 30, 2020:

	Quantity	Cost	Fair Market Value as at September 30, 2020
<b>Public company securities</b>	2,844,000	\$ 792	\$ 167
<b>Money market funds</b>	1,895,463	2,243	2,243
<b>TOTAL INVESTMENTS</b>		<b>\$ 3,035</b>	<b>\$ 2,410</b>

The Company held the following investments as at December 31, 2019:

	Quantity	Cost	Fair Market Value as at December 31, 2019
<b>Public company securities</b>	2,844,000	\$ 792	\$ 35
<b>Money market funds</b>	1,889,092	2,199	2,199
<b>TOTAL INVESTMENTS</b>		<b>\$ 2,991</b>	<b>\$ 2,234</b>

**5. Share capital**

**(a) Authorized:**

- Unlimited Class A voting common shares without par value;
- Unlimited Class B voting common shares without par value;
- Unlimited Class A non-voting preference shares without par value.

**(b) Issued and outstanding**

As at September 30, 2020, the Company had 4,321,699 Class A common shares and 220 Class B common shares issued and outstanding. Each Class B common share can be exchanged for one Class A common share and the Class B common shares exchanged will be cancelled by the Company.

**(c) Stock options**

There were no options outstanding as of September 30, 2020 and December 31, 2019.

The Company has a Stock Option Plan (the "Plan") whereby a maximum of 10% of the issued shares will be reserved for issuance under the Plan. The Plan authorizes the Board of Directors to grant incentive stock options to directors, officers, employees, management companies and consultants of the Company.

The aggregate number of common shares reserved for issuance to any person within any one year may not exceed 5% of the number of outstanding common shares, on a non-diluted basis. The exercise price of the options will be determined by the Board of the Company at the time of grant of the options, such price not to be less than the last daily closing price of the Company's Common Shares on the Exchange prior to the date of grant, less the discount permitted by the policies of the Exchange. The options can be granted for a maximum

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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
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**5. Share capital (Continued)**

**(c) Stock options (Continued)**

term of 5 years if the Company is a Tier 2 company or for a maximum term of 10 years if the Company is a Tier 1 company. The vesting schedule of the options shall be determined by the Board of the Company.

**(d) Normal course issuer bid**

On August 27, 2020, the Company obtained an approval from the Exchange to undertake a normal course issuer bid to allow the Company to purchase of up to 216,084 of its Class A common shares, representing approximately 5% of its issued and outstanding shares. Purchases may be made on the open market through the facilities of the Exchange by PI Financial Corp between September 1, 2020 and August 31, 2021. No purchases were made as of September 30, 2020. See subsequent event Note 11.

**6. Earnings per share**

There were no options and warrants outstanding as of September 30, 2020 and 2019 and therefore basic and diluted weighted average numbers of common shares outstanding are equal. The table below is a reconciliation of the denominator used in the calculation of basic and diluted earnings per share:

	<b>2020</b>	<b>2019</b>
Weighted average number of common shares outstanding – basic	<b>4,321,919</b>	4,321,919
Diluted effect of stock options	-	-
Weighted average number of common shares outstanding – diluted	<b>4,321,919</b>	4,321,919

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**7. Related party transactions and balances**

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

For the nine months ended September 30, 2020:

	Short-term employee	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total
Kenneth W. Morgan Chief Executive Officer, President and Director <sup>(a)</sup>	\$ 87	\$ -	\$ -	\$ -	\$ -	\$ 87
Winnie Wong <sup>(c)</sup> Chief Financial Officer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mark T. Brown <sup>(b), (c)</sup> Director	\$ 11	\$ -	\$ -	\$ -	\$ -	\$ 11
Michael Katz <sup>(b)</sup> Director	\$ 11	\$ -	\$ -	\$ -	\$ -	\$ 11
Marc Blythe <sup>(b)</sup> Director	\$ 11	\$ -	\$ -	\$ -	\$ -	\$ 11
Pacific Opportunity Capital Ltd. <sup>(c)</sup>	\$ 35	\$ -	\$ -	\$ -	\$ -	\$ 35

For the nine months ended September 30, 2019:

	Short-term employee	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total
Kenneth W. Morgan Chief Executive Officer, President and Director <sup>(a)</sup>	\$ 87	\$ -	\$ -	\$ -	\$ -	\$ 87
Winnie Wong <sup>(c)</sup> Chief Financial Officer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mark T. Brown <sup>(b), (c)</sup> Director	\$ 11	\$ -	\$ -	\$ -	\$ -	\$ 11
Michael Katz <sup>(b)</sup> Director	\$ 11	\$ -	\$ -	\$ -	\$ -	\$ 11
Marc Blythe <sup>(b)</sup> Director	\$ 11	\$ -	\$ -	\$ -	\$ -	\$ 11
Pacific Opportunity Capital Ltd. <sup>(c)</sup>	\$ 45	\$ -	\$ -	\$ -	\$ -	\$ 45

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**7. Related party transactions and balances (Continued)**

Due to related parties:

	Services for	As at September 30, 2020	As at December 31, 2019
Amounts due to:			
Pacific Opportunity Capital Ltd.	Rent and accounting <sup>(c)</sup>	\$ 2	\$ 2
Mark T. Brown	Director fee <sup>(b), (c)</sup>	\$ 3	\$ 3
Michael Katz	Director fee <sup>(b)</sup>	\$ 4	\$ 4
Marc Blythe	Director fee <sup>(b)</sup>	\$ 3	\$ 3
Yew Street Capital Corporation	Management fee <sup>(a)</sup>	\$ 10	\$ 10
<b>TOTAL:</b>		<b>\$ 21</b>	<b>\$ 21</b>

- (a) During the nine months ended September 30, 2020, Mr. Morgan was paid management fees of \$87 (2019 - \$86) by the Company to Yew Street Capital Corporation, a company controlled by him. He also has termination benefits (Notes 8 & 11).
- (b) The Company paid director fees of \$3 per quarter and \$0.5 per meeting to each independent director.
- (c) Pacific Opportunity Capital Ltd., a company controlled by a director of the Company, was paid \$35 (2019 - \$45) for rent and accounting fees during fiscal 2020 and 2019, respectively.

**8. Commitments**

As at September 30, 2020, the Company was committed to pay \$250 upon termination of a management consulting services agreement with a company controlled by the former CEO of the Company. See subsequent event Note 11.

In March 2016, the Company was advised about legal claims asserted against a former officer in Panama as a result of his position as CFO and director of an investee company, Petaquilla Minerals Ltd. The claimants assert that they have ownership rights to a mining exploration property located in Panama. The Company entered into indemnification agreements (“IA”) to provide indemnification as permitted by the Business Corporations Act (British Columbia). On January 26, 2018, pursuant to the IA, the Company entered into an escrow agreement whereby it will deposit \$250 to an escrow agent for the payment of legal fees. See subsequent event Note 11.

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**9. Financial instruments**

The Company's cash and cash equivalents and investments are stated at amortized cost and fair value respectively. The carrying value of amounts due to related parties and accounts payable and accrued liabilities approximate their fair value, due to their short-term nature.

The Company is exposed to a variety of financial instruments risks: credit risk and market risk (including interest rate risk, currency risk and other price risk). The level of risk to which the Company is exposed depends on the type of investments the Company holds. The value of investments can fluctuate daily as a result of changes in prevailing interest rates, economic and market conditions and company specific news.

(a) Credit risk

Credit risk is the risk that a security issuer or counterparty to a financial instrument will fail to meet its financial obligations. The Company is not exposed to significant credit risk on its cash and cash equivalents since they are placed with major financial institutions and brokers. The credit risk exposure of the Company's investments is represented by their fair values disclosed.

(b) Market risk

In prior years, the Company invested its marketable securities in various industries, including mineral resource, telecom and energy sectors. During the current year, the Company updated its investment policy to provide that any future investments will be made on the basis of investing for purposes of control or for the purpose of being actively involved in management and restricts passive investments. Changes in the future pricing and demand of these commodities can have a material impact on the market value of the investments. The nature of such investments is normally dependent on the invested company being able to raise additional capital to further development and to determine the commercial viability of its resource properties. The value of each investment is also influenced by the outlook of the issuer and by general economic and political conditions. Management mitigates the risk of loss resulting from this concentration by monitoring the trading value of the investments on a regular basis. All securities present a risk of loss of capital. The maximum risk resulting from financial instruments is equivalent to their fair value.

A 1% change in future pricing and trading value of its investments as at September 30, 2020, would change the Company's market value of its investments annually by approximately \$24.

(c) Interest rate risk

Interest rate risk is the risk that the fair value of interest-bearing investments will fluctuate due to changes in prevailing levels of market interest rates. The Company's exposure is limited to its investments in income trusts and other interest-earning instruments which will be affected by changes in applicable interest rates. A 1% change in the interest rate would change the Company's annual net income by approximately \$82.

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**9. Financial instruments (Continued)**

(d) Currency risk

Currency risk arises from financial instruments that are denominated in a currency other than the functional currency of the Company. As a result, the Company may be exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates.

A 1% change in the US dollar exchange rate relative to the Canadian dollar would change the Company's annual net income by approximately \$16.

(e) Classification of financial instruments

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

- i) Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- ii) Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- iii) Level 3 – Applies to assets or liabilities for which there are unobservable market data.

The fair value hierarchy of financial instruments measured at amortized cost and fair value as of September 30, 2020 is as follows:

<b>As at September 30, 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 8,911	\$ -	\$ -	\$ 8,911
Investments	\$ 2,409	\$ -	\$ -	\$ 2,409
	\$ 11,321	\$ -	\$ -	\$ 11,321

The fair value hierarchy of financial instruments measured at amortized cost and fair value as of December 31, 2019 is as follows:

<b>As at December 31, 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 9,484	\$ -	\$ -	\$ 9,484
Investments	\$ 2,234	\$ -	\$ -	\$ 2,234
	\$ 11,717	\$ -	\$ -	\$ 11,717

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**10. Management of capital**

The Company manages its common shares, stock options and warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue suitable equity investments and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the 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 does not have any externally imposed capital requirements.

**11. Subsequent Events**

Subsequent to the quarter end, the Company paid severance payments to the former CEO and one former director. The Company also entered into an indemnification release agreement with the former CEO to release and discharge the Company from the Indemnification Agreements mentioned in Note 8.

Subsequent to the quarter end, the Company purchased 76,000 Class A Shares at \$2.29 per share.



# STRATEGEM CAPITAL

*Strength Through Strategy*

## **Board of Directors**

Honourable Stockwell Day, Chairman  
Desmond Balakrishnan  
Matthew Cicci, CFA  
Gordon Flatt

## **Executive Officers**

Jo-Anne O'Connor, President & Chief Executive Officer  
Carol Fozo, CPA, Chief Financial Officer  
Gordon Flatt, Managing Partner & Chief Investment Strategist

## **Committees**

### *Audit & Corporate Governance Committee*

Desmond Balakrishnan, Chairman  
Matthew Cicci

### *Office of the President*

Gordon Flatt, Chairman  
Jo-Anne O'Connor

### *Science and Technology Advisory Committee (STAC)*

Graydon Flatt, Chairman  
John Waterer, PhD  
Gordon Flatt