



STRATEGEM
CAPITAL

Strength Through Strategy

STRATEGEM CAPITAL CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2020

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

TSX-v: SGE

INTRODUCTION

This is Management’s Discussion and analysis (“MD&A”) for Strategem Capital Corporation (the “Company” or “Strategem”) has been prepared based on information known to management as of April 8, 2021. This MD&A is intended to help the reader understand the financial statements of Strategem.

The following information should be read in conjunction with the audited financial statements for the years ended December 31, 2020 and 2019 and the related notes, all of which are prepared in accordance with International Financial Reporting Standards (“IFRS”). Annual references are to the Company’s fiscal years, which end on December 31. All dollar figures included therein and in the following management discussion and analysis are quoted in thousands of Canadian dollars, unless otherwise noted.

DESCRIPTION OF THE BUSINESS

Strategem is a publicly - listed company with an objective for continued growth through investments in a broad spectrum of investments including resource exploration and development and energy production. The Company trades under the symbol “SGE” on the TSX Venture Exchange (the “TSX-v” or the “Exchange”).

This MD&A is dated April 8, 2021 and discloses specified information up to that date. The Company is classified as a “venture issuer” for the purpose of National Instrument 51-102. Unless otherwise cited, references to dollar amounts are expressed in Canadian dollars. Throughout this report we refer from time to time to “Strategem”, the “Company”, “we”, “us”, “our”, or “its”. All these terms are used in respect of Strategem Capital Corporation, which is the reporting issuer in this document. We recommend that readers consult the “Cautionary Statements” on the last page of this report. Additional information related to Strategem is available for view on SEDAR at www.sedar.com.

RECENT ACTIVITIES

Through a number of transactions SKKY Capital Corporation acquired 1,521,400 common shares and 203378 Ontario Inc. acquired 1,500,000 common shares of the Company. The Company is not aware of any other holder of more than 10% of the Company’s share capital.

SELECTED FINANCIAL INFORMATION

The following financial information is derived from the Company's financial statements for the years ended December 31, 2020, December 31, 2019 and December 31, 2018 which have been prepared in accordance with IFRS.

(expressed in \$ thousands, except per share amounts)	Year Ended December 31,		
	2020	2019	2018
Total Revenues (Loss)	113	696	(896)
Net earnings (Loss) for the year	(1,700)	252	(783)
Earnings (Loss) per share – basic and diluted ⁽¹⁾	(0.39)	0.06	(0.18)
Total Assets	9,434	11,739	11,421
Non-current liabilities	-	-	395
Working Capital	9,349	11,223	11,365

SUMMARY OF QUARTERLY RESULTS

(expressed in \$ thousands, except per share amounts)	2020	2020	2020	2020	2019	2019	2019	2019
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest, dividends and other income	11	10	35	18	45	45	46	119
Gain (Loss) on sale of investments	8	-	-	-	(1,033)	(65)	(34)	1,567
Unrealized gain (loss) on investments, net	(138)	33	23	113	1,046	57	18	(1,115)
Total Revenues	(119)	43	58	131	58	37	30	571
Total Expenses	1,578	55	54	90	72	62	54	78
Foreign exchange gain (loss)	(59)	(16)	(30)	65	(40)	23	(41)	(39)
Net earnings (loss) for the period	(1,753)	(28)	(27)	108	(48)	(2)	(48)	350
Earning (Loss) per Share – basic and diluted ⁽¹⁾	(0.39)	(0.01)	(0.01)	0.02	(0.01)	-	(0.01)	0.08
Total Assets	9,434	11,321	11,349	11,375	11,739	11,778	11,781	11,869
Working Capital	9,349	11,281	11,308	11,331	11,223	11,271	11,273	11,321

⁽¹⁾ Earnings per share is the same for basic and diluted number of shares, because there were no options and warrants outstanding from January 1, 2019 to and including December 31, 2020 and thus, the basic and diluted weighted average number of shares was the same.

DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

The Company's earnings and losses are expected to fluctuate significantly and will depend on its ability to identify and acquire investments that will appreciate in value (see "Description of the Business", above), and the exchange rate fluctuations.

Year ended December 31, 2020 and year ended December 31, 2019

During the year ended December 31, 2020, the Company recorded total revenue of \$113, consisting a gain on sale of investments of \$8, unrealized gain on investment of \$31, and interest, dividends and other income of \$74.

During the year ended December 31, 2019, the Company recorded total revenue of \$696, consisting a gain on sale of investments of \$435, unrealized gain on investment of \$6, and interest, dividends and other income of \$255.

For the year ended December 31, 2020, cash-related expenses were \$1,777, an increase of \$1,511 from \$266 for the year ended December 31, 2019. The increase in cash-related expenses was mainly due to \$1,450 in severance

and release payments paid to former management. The other administrative expenditures varied over the periods but the overall effect of these variances was not material.

In 2020, the Company recorded income tax recovery of \$4 (2019 - income tax expense of \$475) and deferred income tax recovery of \$nil (2019 - \$395).

The net loss for the year ended December 31, 2020 was \$1,700 or loss per share of \$0.39, compared to net income of \$81 or income per share of \$0.06 for the year ended December 31, 2019.

Three months ended December 31, 2020 and three months ended December 31, 2019

During the three months ended December 31, 2020 the Company recorded total revenues of (\$119), consisting of interest, dividends and other income of \$11, gain on sale of investments of \$8 and unrealized loss on investments of \$138.

During the three months ended December 31, 2019 the Company recorded total revenue of \$58, consisting of interest, dividends and other income of \$45, loss on sale of investments of \$1,033 and unrealized gain on investments of \$1,046.

For the three months ended December 31, 2020, cash-related expenses were \$1,578, an increase of \$1,506 from \$72 for the same period in 2019. The increase in cash-related expenses was mainly due to the severance and release payments paid to former management. The other administrative expenditures varied over the periods, but the overall effect of these variances was not material.

During the three months ended December 31, 2020, the Company recorded income tax expense of \$nil (2019 - \$475) and deferred income tax recovery of \$nil (2019 - \$395).

The net loss for the three months ended December 31, 2020 was \$1,753 or loss per share of \$0.39, compared to net loss of \$48 or loss per share of \$0.01 for the same period in 2019.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2020, the Company had total assets of \$9,434 and working capital of \$9,349 as compared with total assets of \$11,739 and working capital of \$11,223 at December 31, 2019. The Company's cash and cash equivalents decreased by \$4,711 from \$9,484 as at December 31, 2019 to \$4,773 as at December 31, 2020.

The Company has adequate working capital to fund its expected operating costs through 2021.

COMMITMENTS

During the year, the Company terminated a management consulting services agreement with a company controlled by the former CEO of the Company (see "Related Party Transactions") and paid severances related to this contractual obligation. The Company entered into an indemnification release agreement with the former CEO to release and discharge the Company from indemnification agreements. The Company has no other contractual obligations.

RELATED PARTY TRANSACTIONS

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 year ended December 31, 2020:

(expressed in \$ thousands, except per share amounts)	Short-term employee benefits	Post-employment benefits	Other long-term benefits	Severance and release payments	Share-based payments	Management Fees/Legal Fees	Total
Kenneth W. Morgan, Chief Executive Officer, President and Director ^(a)	\$ 93	\$ -	\$ -	\$ 1,200	\$ -	\$ -	\$ 1,293
Mark T. Brown, Director ^{(b), (c)}	\$ 11	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11
Michael Katz, Director ^(b)	\$ 11	\$ -	\$ -	\$ 250	\$ -	\$ -	\$ 261
Marc Blythe, Director ^(b)	\$ 11	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11
Pacific Opportunity Capital Ltd. ^(c)	\$ 46	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46
Jo-Anne O'Connor, President and Chief Executive Officer ^(d)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25	\$ 25
Carol Fozo, Chief Financial Officer ^(d)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25	\$ 25
McMillan LLP ^(b)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29	\$ 29

For the year ended December 31, 2019:

(expressed in \$ thousands, except per share amounts)	Short-term employee benefits	Post-employment benefits	Other long-term benefits	Severance and release payments	Share-based payments	Total
Kenneth W. Morgan, Chief Executive Officer, President and Director ^(a)	\$ 115	\$ -	\$ -	\$ -	\$ -	\$ 115
Mark T. Brown, Director ^{(b), (c)}	\$ 14	\$ -	\$ -	\$ -	\$ -	\$ 14
Michael Katz, Director ^(b)	\$ 14	\$ -	\$ -	\$ -	\$ -	\$ 14
Marc Blythe, Director ^(b)	\$ 14	\$ -	\$ -	\$ -	\$ -	\$ 14
Pacific Opportunity Capital Ltd. ^(c)	\$ 52	\$ -	\$ -	\$ -	\$ -	\$ 52

Due to Related Parties:

(expressed in \$ thousands, except per share amounts)		As at December 31,	
Amounts due to:	Services for:	2020	2019
Pacific Opportunity Capital Ltd.	Rent and accounting ^(c)	\$ 7	\$ 2
Mark T. Brown	Director fee ^{(b), (c)}	-	3
Michael Katz	Director fee ^(b)	-	3
Marc Blythe	Director fee ^(b)	-	3
Yew Street Capital Corporation	Management fee ^(a)	-	10
Jo-Anne O'Connor	Management fee ^(d)	25	-
Carol Fozo	Management fee ^(d)	25	-
McMillan LLP	Legal fees ^(b)	13	-
Total		\$ 70	\$ 21

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- (a) During the year ended December 31, 2020, Mr. Morgan was paid management fees of \$93 (2019 - \$115) and severance of \$250 by the Company to Yew Street Capital Corporation, a company controlled by him. In addition, an indemnification release payment was paid in trust to legal counsel of Yew Street Capital Corporation.
- (b) The Company paid director fees of \$3 per quarter and \$0.5 per meeting to each independent director. The Company also paid one director a severance payment of \$250. During the year, Mark Brown, Michael Katz and Marc Blythe resigned. There are four new directors; the new directors waived their director fees for 2020. One of the directors is a partner of McMillan LLP.
- (c) Pacific Opportunity Capital Ltd., a company controlled by a director of the Company, was paid \$46 (2019 - \$52) for rent and accounting fees.
- (d) During the year ended December 31, 2020, Jo-Anne O'Connor and Carol Fofo each charged the Company \$25 (2019 - \$nil) for management services provided.

SHARE CAPITAL

- 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.

As at December 31, 2020, the Company had 4,245,699 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.

Stock Option Plan

There were no options outstanding as of December 31, 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.

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.

During the year ended December 31, 2020, 76,000 Class A common shares were purchased for \$174,260. Subsequent to the year end, the common shares were returned to treasury and cancelled.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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.

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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

Market risk is the risk that changes in market factors, such as commodity prices, interest rates or foreign exchange rates, will affect the value of the Company's financial statements. The Company's investment policy states that 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 certain commodities may have a material impact on the market value of the Company's resource, energy, and other 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 December 31, 2020, would change the Company's market value of its investments annually by approximately \$47.

(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 \$68.

(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.

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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 December 31, 2020 is as follows:

As at December 31, 2020	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	4,773	-	-	4,773
Investments	4,661	-	-	4,661
	9,434	-	-	9,434

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

As at December 31, 2019	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	9,484	-	-	9,484
Investments	2,234	-	-	2,234
	11,717	-	-	11,717

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of these financial statements requires management to make judgments and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these judgments and estimates. The financial statements include judgments and estimates which, by their nature, are uncertain. The impacts of such judgments and estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of judgments and estimates that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Estimates

- The carrying value of the investments, the estimated unrealized gains or losses recorded from the fair value fluctuations, and the recoverability of the carrying value which are included in the statements of financial position;
- The provision for income taxes which is included in the statements of comprehensive income (loss) and composition of deferred income tax liabilities included in the statements of financial position; and

- The amount of the changes to comprehensive income (loss) and investments as a result of changes in prevailing interest rates, foreign exchange, economic and market conditions and company specific news.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Changes in Internal Control Over Financial Reporting (“ICFR”)

In connection with National Instrument 52-109, Certification of Disclosure in Issuer’s Annual and Interim Filings (“NI 52-109”) adopted in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management’s Discussion and Analysis. The Venture Issue Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

DISCLOSURE CONTROLS AND PROCEDURES

The Company’s CEO and CFO are responsible for establishing and maintaining the Company’s disclosure controls and procedures. Management, including the CEO and CFO, have evaluated the procedures of the Company and have concluded that they provide reasonable assurance that material information is gathered and reported to senior management in a manner appropriate to ensure that material information required to be disclosed in reports filed or submitted by the Company is recorded, processed, summarized and reported within the appropriate time periods.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at December 31, 2020, the Company had 4,245,699 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.

There were no options and warrants outstanding as of December 31, 2020.

As at December 31, 2020, there were 4,245,699 common shares issued and outstanding and on a fully diluted basis. As at the date of this MD&A, there were 4,245,699 common shares issued and outstanding on a fully diluted basis.

CAUTIONARY STATEMENTS

Certain information regarding the Company as set forth in the MD&A, including management's assessment of the Company's future plans and operations, contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuation, imprecision of reserve estimates, environmental risks, taxation policies, competition from other producers, the lack of qualified personnel or management, stock market volatility and the ability to access sufficient capital from external or internal sources. The actual results, performance or achievement could materially differ from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them does, what benefits the Company will derive there from.

Forward-looking statements included or incorporated by reference in this document include statements with respect to:

- The amount of the changes to net income and investments as a result of changes in prevailing interest rates, economic and market conditions and company specific news;
- Conversion of 220 Class B shares into Class A common shares;
- The Company's earnings and loss fluctuation and the ability to identify and acquire investments that will appreciate in value; and
- The Company's adequate working capital to fund its expected operating costs through 2021.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.