



STRATEGEM CAPITAL

Strength Through Strategy

STRATEGEM CAPITAL CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2022

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

TSX-v: SGE

STRATEGEM CAPITAL CORPORATION

Management Discussion and Analysis

For the year ended December 31, 2022

(Expressed in thousands of Canadian dollars, unless otherwise noted)



INTRODUCTION

The following is Management's Discussion and Analysis ("MD&A") of the financial results of operations of Strategem Capital Corporation ("Strategem" or the "Company") for the year ended December 31, 2022, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Additional Company information, including the Company's most recent Financial Statements, can be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com and the Company's website at www.strategemcapital.com.

All financial measures are expressed in thousands of Canadian dollars unless otherwise indicated.

This information is current as of March 8, 2023.

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 of the Company, 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 2023.

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DESCRIPTION OF THE BUSINESS

Strategem is a publicly - listed company with an objective for continued growth through investments in resource exploration and development, mining, and energy production and agricultural protein products. The Company's Class A shares trade under the symbol "SGE" on the TSX Venture Exchange (the "TSX-v" or the "Exchange").

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.

RECENT ACTIVITIES

On September 23, 2022, the Company obtained an approval from the Exchange to undertake a Normal Course Issuer Bid to allow the Company to purchase up to 467, 576 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 the designated broker until September 22, 2023.

During the year ended December 31, 2022, 127,400 Class A common shares were purchased for \$228 under the Normal Course Issuer Bid. These common shares were returned to treasury and cancelled.

Subsequent to the year end, 31,000 Class A common shares were purchased for \$28 under the Normal Course Issuer Bid. These common shares were returned to treasury and cancelled.

During the year ended December 31, 2022, the Company invested in short term securities and has recognized an unrealized loss of \$20,154. The Company continues to look for investments with the potential for growth and where it could be actively involved in management or have a position of control.

SELECTED FINANCIAL INFORMATION

The following financial information is derived from the Company's financial statements for the years ended December 31, 2022, December 31, 2021 and December 31, 2020 which have been prepared in accordance with IFRS.

(expressed in \$ thousands, except per share amounts)	Years Ended December 31		
	2022	2021	2020
Total revenues (losses)	(19,575)	11,986	113
Net income (loss) for the period	(17,627)	8,283	(1,700)
Earnings (loss) per share – basic and diluted ⁽¹⁾	(1.88)	1.10	(0.39)
Total assets	11,649	33,118	9,434
Current liabilities	47	936	85
Non-current liabilities	-	2,725	-
Working capital	11,602	32,182	9,349

⁽¹⁾ Fully diluted weighted average common shares outstanding, used in the calculation of fully dilutive earnings per share, are not reflective of the outstanding warrants as their exercise would be anti-dilutive in the earnings per share calculation.

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SUMMARY OF QUARTERLY RESULTS

(expressed in \$ thousands, except per share amounts)	2022 Q4	2022 Q3	2022 Q2	2022 Q1	2021 Q4	2021 Q3	2021 Q2	2021 Q1
Interest, dividends and other income	117	99	85	170	137	95	87	28
Gain on sale of investments	-	-	-	108	147	14	355	5
Unrealized gain (loss) on investments, net	319	(3,944)	(10,857)	(5,672)	4,799	406	(1,802)	7,715
Total revenues (losses)	436	(3,845)	(10,772)	(5,394)	5,083	515	(1,360)	7,748
Total expenses	228	115	210	242	574	392	147	344
Foreign exchange gain (loss)	(7)	20	9	(4)	(1)	8	4	(3)
Income (loss) for the period	201	(2,743)	(10,973)	(4,112)	1,783	602	(1,503)	7,401
Earnings (loss) per share – basic and diluted ⁽¹⁾	0.02	(0.29)	(1.17)	(0.44)	0.19	0.06	(0.22)	1.74
Total assets	11,649	11,467	15,448	26,442	33,118	28,198	27,367	17,100
Working capital	11,602	11,442	15,420	26,397	32,182	27,675	27,073	16,750

⁽¹⁾ For the comparative periods prior to Q2 2021, there were no outstanding warrants. Subsequent to Q2 2021, fully diluted weighted average common shares outstanding, used in the calculation of fully dilutive earnings per share, are not reflective of the outstanding warrants as their exercise would be anti-dilutive in the earnings per share calculation.

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, 2022 compared to year ended December 31, 2021

During the year ended December 31, 2022, the Company recorded total losses of \$19,575, consisting of interest, dividends and other income of \$471, gain on sale of investments of \$108 and unrealized loss on investment of \$20,154.

During the year ended December 31, 2021, the Company recorded total revenue of \$11,986, consisting of interest, dividends and other income of \$347, gain on sale of investments of \$521 and unrealized gain on investment of \$11,118. The Company received a tax refund of \$471 during the prior year.

For the year ended December 31, 2022, expenses were \$795 compared to \$1,457 for the year ended December 31, 2021. During the year ended December 31, 2022 the Company recognized \$228 in management fees based on compensation agreements approved by the Company's board of directors, compared to \$1,087 in prior year. The Chief Science Officer & Director of Life Science joined the Company during 2021. The variances in other administrative expenses over the periods was not material.

In 2022, the Company recorded income tax recovery of \$nil (2021 - \$471) and deferred income tax recovery of \$2,725 (2021 – tax expense of \$2,725).

The net loss for the year ended December 31, 2022 was \$17,627 or loss per share of \$1.88, compared to net income of \$8,283 or income per share of \$1.10 for the year ended December 31, 2021.

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Three months ended December 31, 2022 compared to Three months ended December 31, 2021

During the three months ended December 31, 2022, the Company recorded total revenue of \$436, consisting of interest, dividends and other income of \$117 and unrealized gain on investment of \$319.

During the three months ended December 31, 2021, the Company recorded total revenue of \$5,083, consisting of interest, dividends and other income of \$137, gain on sale of investments of \$147, and unrealized gain on investment of \$4,799.

For the three months ended December 31, 2022, expenses were \$228 compared to \$574 for the three months ended December 31, 2021. The decrease is due to recognition of management fees payable in the prior year comparable period. The variances in other administrative expenses over the periods was not material.

The net income for the three months ended December 31, 2022 was \$201 or earnings per share of \$.02, compared to net income of \$1,783 or earnings per share of \$0.19 for the three months ended December 31, 2021.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2022, the Company had total assets of \$11,649 and working capital of \$11,602 as compared with total assets of \$33,118 and working capital of \$32,182 at December 31, 2021. The Company's cash position (cash and cash equivalents) at December 31, 2022 was \$1,780 compared to \$2,122 as at December 31, 2021.

The Company has adequate working capital to fund its expected operating costs through 2023.

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FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In the normal course of business, the Company's activities expose it to a variety of financial risks that may affect its operating performance. These risks are 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, 2022, would change the Company's market value of its investments annually by approximately \$99.

(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 \$18.

(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 \$2.

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(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 December 31, 2022 is as follows:

As at December 31, 2022	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	1,780	-	-	1,780
Investments	9,619	-	250	9,869
	11,399	-	250	11,649

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, 2021	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	2,122	-	-	2,122
Investments	30,645	-	313	30,958
	32,767	-	313	33,080

SIGNIFICANT ACCOUNTING POLICES

Significant accounting policies are detailed in the Company's financial statements for the year ended December 31, 2022.

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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.

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 Issuer 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 certifying officers are responsible for establishing and maintaining the Company's disclosure controls and procedures. Management, including the certifying officers, 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.

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DISCLOSURE OF OUTSTANDING SHARE DATA

As at December 31, 2022, the Company had 9,309,528 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. Upon exchange, the Class B voting common shares will be cancelled by the Company.

As at March 8, 2023

Authorized	Unlimited
Issued and outstanding shares	9,278,748
Warrants	5,191,229
Fully diluted	14,469,977

ADDITIONAL INFORMATION

Additional information is available on SEDAR at www.sedar.com.