



STRATEGEM
C A P I T A L

Strength Through Strategy

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2017

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 March 28, 2018. 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, 2017 and 2016 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 Canadian dollars.

DESCRIPTION OF THE BUSINESS

Strategem is a publicly-traded merchant bank whose investment objective is to provide capital growth through investments in a broad spectrum of diversified investment assets. These investment assets may include securities, mutual funds, government treasury issues, real estate or other related opportunities. Its investments shall be focused, high growth opportunities in private or public companies. The Company trades under the symbol “SGE” on the TSX Venture Exchange (the “TSV-V” or “Exchange”).

There are significant risks associated with the types of opportunities that the Company has been and will be pursuing. Typically, only very few of such investments become successful. The types of investments with which the Company will be involved typically take at least several years to mature into a successful investment, and the failures generally materialize much sooner in the investment cycle. The Company will continue to seek out investment opportunities in emerging companies that have a strong likelihood of becoming successful investments as they mature.

SELECTED FINANCIAL INFORMATION

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Total revenue (loss)	\$1,667,570	\$1,972,011	(\$1,253,642)
Earnings (loss) before extraordinary items	\$1,099,282	\$4,282,372	(\$893,730)
Net earnings (loss) for the year	\$1,099,282	\$4,282,372	(\$893,730)
Earnings (loss) Per Share - basic	\$0.25	\$0.96	(\$0.17)
Earnings (loss) Per Share – diluted	\$0.25	\$0.96	(\$0.17)
Total assets	\$12,460,350	\$11,180,076	\$7,285,698
Total long-term liability	\$652,992	\$386,033	\$145,324
Cash dividends declared per share	N/A	N/A	N/A

SUMMARY OF QUARTERLY RESULTS

	2017	2017	2017	2017	2016	2016	2016	2016
	31-Dec	30-Sep	30-Jun	31-Mar	Dec 31	Sep 30	Jun 30	Mar 31
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue (loss)	\$ 611,203	\$ 691,985	\$ 61,383	\$ 302,999	\$ 98,586	\$ 432,094	\$ 556,906	\$ 884,425
Earnings (loss) before extraordinary items	\$ 394,884	\$ 445,022	\$ 88,983	\$ 170,393	\$ 52,953	\$ 276,943	\$ 3,489,488	\$ 462,988
Per Share ⁽¹⁾	\$ 0.09	\$ 0.10	\$ 0.02	\$ 0.04	\$ 0.01	\$ 0.06	\$ 0.80	\$ 0.10
Per Share – (diluted)	\$ 0.09	\$ 0.10	\$ 0.02	\$ 0.04	\$ 0.01	\$ 0.06	\$ 0.80	\$ 0.10
Net earnings (loss) for the period	\$ 394,884	\$ 445,022	\$ 88,983	\$ 170,393	\$ 52,953	\$ 276,943	\$ 3,489,488	\$ 462,988
Per Share ⁽¹⁾	\$ 0.09	\$ 0.10	\$ 0.02	\$ 0.04	\$ 0.01	\$ 0.06	\$ 0.80	\$ 0.10
Per Share – (diluted)	\$ 0.09	\$ 0.10	\$ 0.02	\$ 0.04	\$ 0.01	\$ 0.06	\$ 0.80	\$ 0.10

⁽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, 2016 to and including December 31, 2017 and thus, the basic and diluted weighted average number of shares was the same.

DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations

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, 2017 and year ended December 31, 2016

During the year ended December 31, 2017, the Company recorded total revenue of \$1,667,570, consisting a gain on sale of investments of \$457,576, unrealized gain on investment of \$880,030, and interest, dividends and other income of \$329,964.

During the year ended December 31, 2016, the Company recorded total revenue of \$1,972,011, consisting a gain on sale of investments of \$695,511, unrealized gain on investment of \$989,827, and interest, dividends and other income of \$286,673.

Excluding the foreign exchange gain of \$8,713, cash-related expenses for the year ended December 31, 2017 were \$310,042, a decrease of \$214,280 from \$524,322 for the year ended December 31, 2016 which excludes the foreign exchange loss of \$18,435. The decrease in cash-related expenses was mainly due to: (a) the decrease on legal and accounting fees of \$91,077 (2016 - \$264,023) because in fiscal 2016, the Company had continued discussion with the Canada Revenue Agency ("CRA") regarding the tax disputes and settled such in 2016, and (b) the decrease on shareholder information and filing fees of \$23,846 (2016 - \$56,993) because in fiscal 2016, the Company carried out a substantial issuer bid. The other administrative expenditures varied over the periods but the overall effect of these variances was not material.

With the settlement of tax disputes with the CRA in fiscal 2016, the Company recorded income tax recovery of \$1,936,861, refund interest income of \$77,578 and refund arrears interest and penalties of \$1,079,388 in fiscal 2016, while in fiscal 2017, there was no such recognition. The Company recorded deferred income tax expense of \$266,959 in 2017 (2016 - deferred income tax expense of \$240,709).

The net income for the year ended December 31, 2017 was \$1,099,282 or earnings per share of \$0.25 as compared with net income of \$4,282,372 or earnings per share of \$0.96 for the same period of 2016.

Three months ended December 31, 2017 and three months ended December 31, 2016

During the three months ended December 31, 2017 the Company recorded total revenue of \$611,203, consisting gain on sale of investments of \$189,087, unrealized gain on investments of \$326,528 and interest, dividends and other income of \$95,588.

During the three months ended December 31, 2016 the Company recorded total revenue of \$98,586, consisting gain on sale of investments of \$285,557 and interest, dividends and other income of \$69,749, offsetting with unrealized loss on investments of \$256,720.

Excluding the foreign exchange loss of \$8,433, cash-related expenses for the three months ended December 31, 2017 were \$109,181, a slight decrease of \$4,946 from \$114,127 for the same period in 2016 which excludes the foreign exchange gain of \$30,403. The slight decrease in cash-related expenses was mainly due to the decrease on legal and accounting fees of \$55,888 (2016 - \$67,421) due to less legal fees to address the tax dispute with the CRA during fiscal 2016. 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, 2016, the Company recorded income tax expense \$1,019,248, refund interest income of \$77,578 and refund arrears interest and penalties of \$1,079,388 while in 2017, the Company did not have such refund. The Company recorded deferred income tax expense of \$98,705 in fiscal 2017 (2016 - deferred income tax expense of \$99,627).

The net income for the three months ended December 31, 2017 was \$394,884 or earnings per share of \$0.09 as compared with net income of \$52,953 or earnings per share of \$0.01 for the same period of 2016.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2017, the Company had total assets of \$12,460,350 and working capital of \$12,407,896 as compared with total assets of \$11,180,076 and working capital of \$11,132,860 at December 31, 2016. The Company's cash and cash equivalents decreased by \$1,369,531 from \$4,893,115 as at December 31, 2016 to \$3,523,584 as at December 31, 2017. The decrease was from \$1,288,713 cash used in operating activities and \$91,205 used for normal course issuer bid in financing activities.

The Company has adequate working capital to fund its expected operating costs through 2018.

COMMITMENTS

The Company is committed to pay \$250,000 upon termination of a management consulting services agreement with a company controlled by the CEO of the Company (see "Related Party Transactions").

In March 2016, the Company was advised by the CEO/director of the Company about legal claims asserted against him 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") with the directors of the Company to provide indemnification as permitted by the Business Corporations Act (British Columbia). On January 26, 2018, pursuant to the CEO's IA, the Company entered into an escrow agreement whereby it will deposit \$250,000 to the escrow agent as the initial amount of the escrow fund for the payment of the CEO's legal fees. The Company may pay additional amounts into the escrow fund from time to time. As at March 28, 2018, no amount has been deposited with the escrow agent. Pursuant to the IA, the Company will pay any income or other taxes that the CEO may become liable for as a result of the indemnified amounts.

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, 2017

	Short-term employee benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total
Kenneth W. Morgan Chief Executive Officer, President and Director	\$115,920 ^(a)	\$Nil	\$Nil	\$Nil ^(a)	\$Nil	\$115,920 ^(a)
Mark T. Brown ^(b) Director	\$14,000	\$Nil	\$Nil	\$Nil	\$Nil	\$14,000
Michael Katz ^(b) Director	\$14,000	\$Nil	\$Nil	\$Nil	\$Nil	\$14,000
Marc Blythe ^(b) Director	\$14,000	\$Nil	\$Nil	\$Nil	\$Nil	\$14,000
Pacific Opportunity Capital Ltd. ^(c)	\$48,266	\$Nil	\$Nil	\$Nil	\$Nil	\$48,266

For the year ended December 31, 2016

	Short-term employee benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total
Kenneth W. Morgan Chief Executive Officer, President and Director	\$115,920 ^(a)	\$Nil	\$Nil	\$Nil ^(a)	\$Nil	\$115,920 ^(a)
Mark T. Brown ^(b) Director	\$14,000	\$Nil	\$Nil	\$Nil	\$Nil	\$14,000
Michael Katz ^(b) Director	\$14,000	\$Nil	\$Nil	\$Nil	\$Nil	\$14,000
Marc Blythe ^(b) Director	\$14,000	\$Nil	\$Nil	\$Nil	\$Nil	\$14,000
Pacific Opportunity Capital Ltd. ^(c)	\$65,528	\$Nil	\$Nil	\$Nil	\$Nil	\$65,528

Due to related parties:

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	Services for	As at December 31, 2017	As at December 31, 2016
Amounts due to:			
Pacific Opportunity Capital Ltd.	Rent, management, and accounting ^(c)	\$ 3,873	\$ 2,247
Mark T. Brown	Director fee	\$ 3,297	\$ 3,282
Michael Katz	Director fee	\$ 3,500	\$ 3,500
Marc Blythe	Director fee	\$ 3,297	\$ 3,282
Yew Street Capital Corporation	Management ^(a)	\$ 9,660	\$ 9,660
TOTAL:		\$ 23,627	\$ 21,971

- (a) During the year ended December 31, 2017, Mr. Morgan was paid management fees of \$115,920 (2016 - \$115,920) by the Company to Yew Street Capital Corporation, a company controlled by him. He also has termination benefits (see “Commitments”). In addition, the Company paid \$25,520 (2016 - \$79,252) to a legal counsel on behalf of Mr. Morgan in relation to certain claim against him (see “Commitments”).
- (b) The Company pays director fees of \$3,000 per quarter and \$500 per meeting to each independent director.
- (c) Pacific Opportunity Capital Ltd., a company controlled by a director of the Company, charged \$48,266 (2016 - \$65,528) for rent, accounting and management fees for an accounting and administrative team of three people during fiscal 2017 and 2016 respectively.

CAPITAL STOCK

- 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, 2017, 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 then be cancelled by the Company.

Stock option plan

There were no options and warrants outstanding as of December 31, 2017 and 2016.

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.

Substantial issuer bid

On December 18, 2015, the Company authorized a substantial issuer bid (“Offer”) to purchase for cancellation up to 600,000 of its issued and outstanding Class A common shares (“Shares”) at a purchase price of \$0.90 per Share in cash.

On January 28, 2016, the Company increased the purchase price of the Shares to \$1.00 per Share and increased the number of Shares that the Company may purchase to up to 750,000 Shares. The Offer was also extended to February 16, 2016. In February 2016, all terms and conditions of the Offer had been complied with and 592,557 Class A Shares at a purchase price of \$1.00 per Share were properly tendered to the Offer and not withdrawn. After giving

effect to the Offer, the number of issued and outstanding Class A Shares was reduced to 4,370,999.

Normal course issuer bid

On August 1, 2017, the Company obtained an approval from the Exchange to undertake a normal course issuer bid to allow the Company to purchase up to 218,549 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 Raymond James Ltd. between August 2, 2017 and July 31, 2018.

During the year ended December 31, 2017, 49,300 Class A common shares were purchased for \$91,205 by the Company and the shares were cancelled and returned to treasury.

As at December 31, 2017, there were 4,321,919 common shares issued and outstanding and on a fully diluted basis. As at the date of this MD&A, there were 4,321,919 common shares issued and outstanding and on a fully diluted basis.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's cash and cash equivalents and investments held for trading are stated at fair value. The fair value of amounts due to related parties and accounts payable and accrued liabilities approximates their carrying 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

The Company invests its marketable securities in various industries, including mineral resource, telecom and energy sectors. 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 December 31, 2017, would change the Company's market value of its investments annually by approximately \$89,100.

(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 \$130.

(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 \$109,300.

(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 fair value as of December 31, 2017 is as follows:

As at December 31, 2017	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,523,584	\$ -	\$ -	\$ 3,523,584
Investments	8,909,056	-	-	8,909,056
	\$ 12,432,640	\$ -	\$ -	\$ 12,432,640

The fair value hierarchy of financial instruments measured at fair value as of December 31, 2016 is as follows:

As at December 31, 2016	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 4,893,115	\$ -	\$ -	\$ 4,893,115
Investments	6,285,807	-	-	6,285,807
	\$ 11,178,922	\$ -	\$ -	\$ 11,178,922

SIGNIFICANT ACCOUNTING JUDGMENTS 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 loss and composition of deferred income tax liabilities included in the statements of financial position; and
- The amount of the changes to comprehensive income 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.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for the December 31, 2017 reporting period. The Company has not early adopted the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

- IFRS 9 (Amended 2010) Financial Instruments (effective January 1, 2018)
- IFRS 16 Leases (effective January 1, 2019)

The Company anticipates that the application of the above new and revised standards, amendments and interpretations will have no material impact on its results and financial position.

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 NI52-109.

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.

FORWARD-LOOKING 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 2018.

ADDITIONAL INFORMATION

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