



STRATEGEM

CAPITAL

Strength Through Strategy

STRATEGEM CAPITAL CORPORATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

STRATEGEM CAPITAL CORPORATION

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Strategem Capital Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Strategem Capital Corporation which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Strategem Capital Corporation as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.



CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC
March 28, 2018

STRATEGEM CAPITAL CORPORATION
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31
(EXPRESSED IN CANADIAN DOLLARS)

	Notes	2017	2016
ASSETS			
Current assets			
Cash and cash equivalents		\$ 3,523,584	\$ 4,893,115
Investments	3	8,909,056	6,285,807
Prepaid expenses and deposits		27,710	1,154
Total current assets		12,460,350	11,180,076
TOTAL ASSETS		\$ 12,460,350	\$ 11,180,076
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		\$ 28,827	\$ 25,245
Due to related parties	6	23,627	21,971
Total current liabilities		52,454	47,216
Non-current liabilities			
Deferred income tax liability	9	652,992	386,033
Total non-current liabilities		652,992	386,033
EQUITY			
Share capital	4	1,096	1,096
Retained earnings		11,753,808	10,745,731
Total equity		11,754,904	10,746,827
TOTAL EQUITY AND LIABILITIES		\$ 12,460,350	\$ 11,180,076

Commitments (Note 7)

These financial statements were authorized for issue by the Board of Directors on March 28, 2018.
They are signed on the Company's behalf by:

"Kenneth W. Morgan" Director

"Mark T. Brown" Director

See accompanying notes to the financial statements

STRATEGEM CAPITAL CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31
(EXPRESSED IN CANADIAN DOLLARS)

	Notes	2017	2016
Revenues			
Interest, dividends and other income		\$ 329,964	\$ 286,673
Gain on sale of investments, net		457,576	695,511
Unrealized gain on investments, net		880,030	989,827
Total revenues		1,667,570	1,972,011
Expenses			
Consulting and management fees	6	115,920	115,920
Director fees	6	42,000	42,000
Office and occupancy		37,199	45,386
Legal and accounting		91,077	264,023
Shareholder information and filing fees		23,846	56,993
Total expenses		310,042	524,322
Other items			
Refund arrears interests and penalties	9	-	1,079,388
Refund interest income	9	-	77,578
Foreign exchange gain (loss)		8,713	(18,435)
Total other items		8,713	1,138,531
Income before income taxes		1,366,241	2,586,220
Income tax recovery	9	-	1,936,861
Deferred income tax expense	9	(266,959)	(240,709)
Net income and comprehensive income for the year		\$1,099,282	\$4,282,372
Earnings per share - basic and diluted	5	\$ 0.25	\$ 0.96
Weighted average number of common shares outstanding		4,333,642	4,473,217

See accompanying notes to the financial statements

STRATEGEM CAPITAL CORPORATION
STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)

		Class A	Class A	Class B	Class B	Retained	Total
Issued and outstanding	Notes	Number of	Share	Number of	Share	Earnings	Equity
		Shares	Capital	Shares	Capital		
Balance as at January 1, 2016		4,963,556	\$ -	220	\$1,096	\$ 7,055,916	\$ 7,057,012
Substantial issuer bid	4(d)	(592,557)	-	-	-	(592,557)	(592,557)
Net income for the year		-	-	-	-	4,282,372	4,282,372
Balance as at December 31, 2016		4,370,999	\$ -	220	1,096	10,745,731	10,746,827
Normal course issuer bid	4(e)	(49,300)	-	-	-	(91,205)	(91,205)
Net income for the year		-	-	-	-	1,099,282	1,099,282
Balance as at December 31, 2017		4,321,699	\$ -	220	\$1,096	\$ 11,753,808	\$ 11,754,904

See accompanying notes to the financial statements

STRATEGEM CAPITAL CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(EXPRESSED IN CANADIAN DOLLARS)

	2017	2016
Cash flow from operating activities		
Net income	\$ 1,099,282	\$ 4,282,372
Adjustments to reconcile to net cash flows from operating activities:		
Gain on sale of investments, net	(457,576)	(695,511)
Unrealized gain on investments, net	(880,030)	(989,827)
Foreign exchange gain (loss)	(10,387)	6,357
Deferred income tax expense	266,959	240,709
	18,248	2,844,100
Changes in non-cash working capital items:		
Prepaid expenses and deposits	(26,556)	12,728
Income tax receivable	-	179,933
Accounts payable and accrued liabilities	3,582	(32,503)
Due to related parties	1,656	(3,643)
	(21,318)	156,515
Changes in other items:		
Proceeds from sale of investments	2,479,012	3,038,194
Purchase of investments	(3,764,655)	(2,063,257)
	(1,285,643)	974,937
Net cash (used in) provided by operating activities	(1,288,713)	3,975,552
Cash flow from financing activities		
Normal course issuer bid - shares cancelled	(91,205)	-
Substantial issuer bid - shares cancelled	-	(592,557)
Net cash used in financing activities	(91,205)	(592,557)
Effect of exchange rate changes on cash and cash equivalents	10,387	(6,357)
Net change in cash and cash equivalents	(1,369,531)	3,376,638
Cash and cash equivalents, beginning of the year	4,893,115	1,516,477
Cash and cash equivalents, end of the year	\$ 3,523,584	\$ 4,893,115
Supplemental cash flow information		
Dividends received	\$ 282,816	\$ 272,375
Interest paid	\$ 13,442	\$ 11,978
Interest received	\$ 24,169	\$ 6,404
Trust income distributions	\$ 22,979	\$ 7,894
Income taxes refunded - prior years' reassessments		\$ 1,936,861
Arrears interest and penalties refunded - prior years' reassessments		\$ 1,079,388
Refund interest received		\$ 77,578

Cash and cash equivalents consist of cash of \$3,523,584 (2016 – cash of \$3,891,605; GIC of \$1,001,510).

See accompanying notes to the financial statements

STRATEGEM CAPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN CANADIAN DOLLARS)

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 1500, 1055 W Georgia Street, Vancouver B.C. V6E 4N7, Canada. The Company 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").

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 year ended December 31, 2017, the Company reported a net income of \$1,099,282 (2016 – net income of \$4,282,372). At December 31, 2017, the Company had cash and cash equivalents of \$3,523,584 (2016 - \$4,893,115) and working capital of \$12,407,896 (2016 - \$11,132,860).

2. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance and compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee ("IFRIC").

(b) Basis of preparation

These financial statements have been prepared on a historical cost basis. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The preparation of financial statements requires management to make judgements, 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 financial statements, including comparatives, have been prepared on the basis of IFRS standards that are published at the time of preparation.

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.

STRATEGEM CAPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN CANADIAN DOLLARS)

2. Significant accounting policies (Continued)

(c) 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.

(d) Functional currency and foreign currency transactions

The presentation currency of the Company and the functional currency of the Company is the Canadian dollar. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(e) Cash and cash equivalents

Cash and cash equivalents consists of balances with banks and investments in financial instruments that are readily convertible into known amounts of cash and have original maturities within 90 days held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. As at December 31, 2017, the Company did not have any cash equivalents.

STRATEGEM CAPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN CANADIAN DOLLARS)

2. Significant accounting policies (Continued)

(f) Investments

At each financial reporting period, the Company's management estimates the fair value of investments based on the criteria below and reflects such valuations in the financial statements.

Investments in shares of public companies traded on a recognized securities exchange are recorded at the closing bid prices on the last day the security traded on, or prior to, the statement of financial position date.

Derivative financial instruments, including future contracts, warrants and options not traded on a recognized securities exchange, are recorded at fair value based upon the difference between the exercise price and the closing bid price of the underlying shares, adjusted for time value, volatility and liquidity. Any subsequent changes in the market value are recognized in the current period's statement of comprehensive income.

Transaction costs, such as brokerage commissions, incurred in the purchase and sale of investments, are recorded as an expense in the statement of comprehensive income. Purchase and sales of securities are accounted for on a trade date basis.

The amounts at which investments in public companies could be disposed of currently may differ from fair values based upon market bid prices, as the value at which significant ownership positions are sold is often different from a quoted market price due to a variety of factors such as premiums paid for large blocks, or discounts due to liquidity.

(g) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales tax or duty. The following specific recognition criteria must also be met before revenue is recognized:

Security transactions - Security transactions are recorded on a trade-date basis. Realized gains and losses on disposal of investments and unrealized gains and losses in the value of investments are reflected in the statements of comprehensive income and are calculated on an average cost basis.

Interest, dividends, and other income - Interest is recorded on an accrual basis. Other income, including administration and advisory services fees, is received from investee and other companies and is recognized as the services are provided and collection is reasonably assured. Dividends are recorded when proceeds are received.

STRATEGEM CAPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN CANADIAN DOLLARS)

2. Significant accounting policies (Continued)

(h) Earnings per share

The Company presents the basic and diluted earnings per share data for its common shares, calculated by dividing the income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

(i) Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

STRATEGEM CAPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN CANADIAN DOLLARS)

2. Significant accounting policies (Continued)

(j) Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statement of comprehensive income.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment or repayment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of comprehensive income.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of comprehensive income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statement of comprehensive income.

Other financial liabilities- This category includes amounts all of which are recognized at amortized cost.

Recognition and measurement

The Company has measured its cash and cash equivalents and investments at fair value through profit or loss. Accounts payable and accrued liabilities, and due to related parties are classified as other liabilities, all of which are measured at amortized cost.

STRATEGEM CAPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN CANADIAN DOLLARS)

2. Significant accounting policies (Continued)

(j) Financial instruments (Continued)

Disclosure and presentation

The Company follows IFRS 7 *Financial Instruments – disclosures*, which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages such risks. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

This IFRS disclosure also requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company discloses additional disclosures for this standard in Note 8.

The Company also follows IAS 32, *Financial Instruments – Presentation*, which establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

(k) Comparative figures

Certain of the prior year's figures have been reclassified to conform with the current year's financial statement presentation.

STRATEGEM CAPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN CANADIAN DOLLARS)

3. Investments

At December 31, 2017, the Company holds shares, convertible notes, and mutual funds of certain companies with a total cost of \$7,131,763 (2016 - \$5,338,796) and a total fair value of \$8,909,056 (2016 - \$6,285,807).

As at December 31, 2017, the Company held the following investments:

	Quantity	Cost	Fair Market Value as at December 31, 2017
Public companies:			
Altgas Ltd.	15,000	\$ 435,152	\$ 424,500
Bank of Nova Scotia	4,000	211,310	324,440
BCE Inc. New	53,344	2,060,840	3,219,310
Blackberry Limited	2,000	84,400	28,080
CIBC	5,000	372,443	612,100
EFLO Energy Inc.	177,000	157,370	-
Encana Corporation	13,000	352,713	217,880
Fairfax Financial Holdings Sr1 Pref.	7,500	187,500	155,775
Granite Reit Stapled Unit New	4,000	135,187	196,520
Great West Life-Preferred	10,000	250,000	258,100
ITAFOS	2,666	5,332	6,531
Manulife Financial Corp.	6,000	123,415	157,320
Pan Global Resources Inc.	250,000	50,000	45,000
Petaquilla Minerals Ltd	150,000	84,855	-
PRD Energy Inc.	2,017,000	250,173	1,614
Rogers Sugar Inc	10,000	54,438	63,100
Royal Bank of Canada	2,500	88,125	256,625
Sun Life Financial Inc.	10,000	298,724	518,700
Telus Corp.	30,000	497,970	1,427,400
Terrace Energy Corp.	50,000	107,500	500
Terrace Energy Corp. - Convertible Notes	250,000	250,000	1,325
Transalta Corp	25,000	399,683	186,000
TransCanada Corp.	7,000	235,662	428,050
US Steel Corp	20,000	711,605	881,916
Various Put and Call 100 Options	(1,737) ^(a)	(272,634)	(501,730)
TOTAL INVESTMENTS:		\$ 7,131,763	\$ 8,909,056

(a) Negative number denotes short position.

STRATEGEM CAPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN CANADIAN DOLLARS)

3. Investments (Continued)

As at December 31, 2016, the Company held the following investments:

	Quantity	Cost	Fair Market Value as at December 31, 2016
Public companies:			
Bank of Nova Scotia	4,000	\$ 211,310	\$ 299,040
BCE Inc. New	29,700	995,640	1,722,600
Blackberry Limited	2,000	84,400	18,460
CIBC	5,000	372,443	547,800
EFLO Energy Inc.	177,000	157,370	-
Encana Corporation	13,000	352,713	204,880
Fairfax Financial Holdings Sr1 Pref.	7,500	187,500	138,000
Granite Reit Stapled Unit New	4,000	135,187	179,280
Great West Life-Preferred	10,000	250,000	255,700
Manitoba Telecom Services Inc.	35,000	1,065,316	1,326,500
Manulife Financial Corp.	6,000	123,415	143,400
Pan Global Resources Inc.	250,000	50,000	7,500
Petaquilla Minerals Ltd	150,000	84,855	-
PRD Energy Inc.	2,017,000	250,173	2,017
Rogers Sugar Inc	10,000	54,438	67,900
Royal Bank of Canada	2,500	88,125	227,175
Stonegate Agricom Ltd	333,333	92,333	3,333
Sun Life Financial Inc.	10,000	298,724	515,400
Telus Corp.	30,000	497,970	1,279,800
Terrace Energy Corp.	50,000	107,500	3,000
Terrace Energy Corp. - Convertible Notes	250,000	250,000	10,075
Transalta Corp	25,000	399,683	185,500
TransCanada Corp.	7,000	235,662	423,570
US Steel Corp	(23,300) ^(a)	(673,554)	(1,033,966)
Various Put and Call 100 Options	(444) ^(a)	(282,407)	(241,157)
TOTAL INVESTMENTS:		\$ 5,388,796	\$ 6,285,807

(a) Negative number denotes short position.

STRATEGEM CAPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN CANADIAN DOLLARS)

4. Share capital

(a) **Authorized:** share capital is as follows:

- 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 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 shares can be exchanged for one Class A common share, and the Class B common shares exchanged will then be cancelled by the Company.

(c) **Stock options**

There were no options 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.

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 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) **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 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.

(e) **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.

STRATEGEM CAPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN CANADIAN DOLLARS)

5. Earnings per share

There were no options and warrants outstanding as of December 31, 2017 and 2016 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 for the periods ended:

	2017	2016
Weighted average number of common shares outstanding – basic	4,333,642	4,473,217
Diluted effect of stock options	-	-
Weighted average number of common shares outstanding –diluted	4,333,642	4,473,217

6. 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 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

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6. Related party transactions and balances (Continued)

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:

	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 (Note 7). 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 (Note 7).

(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.

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7. 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 (Note 6(a)).

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.

8. Financial instruments

The Company’s cash and cash equivalents and investments held for trading are stated at fair value. 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

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.

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8. Financial instruments (Continued)

(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

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9. Income taxes

In 2013, Canada Revenue Agency (“CRA”) reassessed the Company’s March 31, 2007 and December 31, 2007 taxation periods and denied the Company’s capital treatment on a portion of its income. The Company paid \$3,000,000 to CRA in April 2014 and filed Notices of Objection for the 2007 Reassessments on June 18, 2014.

The Company also filed Notices of Objection for the 2008 and 2009 tax years disputing the timing of certain losses and hoped to recover interest charged for the 2008 tax year (approximately \$534,000). On January 23, 2015, CRA disallowed all the Company’s Notices of Objection and issued Notices of Confirmation of their reassessments. On April 22, 2015, the Company filed an appeal to the Tax Court of Canada.

On July 25, 2016, the Company resolved its income tax disputes with CRA and the Department of Justice. A mutual consent to judgment was filed with the Tax Court of Canada, under which the Company's appeals with respect to its taxation years ended March 31, 2007 and December 31, 2007 were allowed and its appeals with respect to its taxation years ending December 31, 2008 and December 31, 2009 were dismissed.

In October 2016, the Company received \$3,093,827 from CRA related to the March 31, 2007, December 31, 2007 and December 31, 2008 taxable years, of which \$77,578 was refund interest. In 2013, the Company paid its reassessed 2008 and 2009 tax liabilities. No further amounts will be payable or refundable in respect of those taxation years.

A reconciliation of the total refund is as follows:

Income taxes refunded – prior years’ reassessments	\$	1,936,861
Arrears interest and penalties refunded – prior years’ reassessments		1,079,388
Refund interest income received		77,578
Total refund	\$	3,093,827

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2017	2016
Income before income taxes	\$ 1,366,241	\$ 2,586,220
Expected income tax expense	355,223	672,417
Non-deductible items and other	107,770	(267,898)
Non-taxable items and other	(302,340)	(328,173)
Recognition of prior year non-capital losses	(160,653)	(76,346)
Income tax recovery for prior years	-	(1,936,861)
Income tax recovery	-	(1,936,861)
Deferred income tax expense	266,959	240,709
Net income tax expense (recovery)	\$ 266,959	\$ (1,696,152)

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9. Income taxes (Continued)

The significant components of the Company's deferred income tax assets and liabilities at December 31, 2017 and December 31, 2016 based on a combined statutory tax rate of 26% (2016 – 26%) are as follows:

	2017	2016
Deferred income tax assets:		
Non-capital loss carry-forwards	\$ 61,360	\$ 222,300
Capital losses carry-forwards	20,384	20,384
Equipment	109	165
	<u>81,853</u>	<u>242,849</u>
Deferred income tax (liability):		
Investments	(734,845)	(628,882)
	<u>(734,845)</u>	<u>(628,882)</u>
Net deferred income tax liabilities	<u>\$ (652,992)</u>	<u>\$ (386,033)</u>

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 investment 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.