STRATEGEM
CAPITAL
*Strength Through Strategy*

# MANAGEMENT'S DISCUSSION AND ANALYSIS – QUARTERLY HIGHLIGHTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019

## Introductory Comment and Overview

Strategem Capital Corporation ("Strategem" or the "Company") is a publicly-traded merchant bank whose investment objective is to invest for purposes of control or for the purpose of being actively involved in management, therefore restricting passive investments. The Company continues to look for investments in a broad spectrum of diversified investment assets.

This MD&A is dated October 28, 2019 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.

## Quarterly Highlights

In January 2019, the Company announced that if the Company were to hold a portfolio of "passive" investments, rather than investments for purposes of control and influence over management, the Company would be required to register as an non-redeemable investment fund and its investment committee members may be required to register as investment fund managers or portfolio managers under *National Instrument* 31-103 ("NI 31-103"). As a non-redeemable investment fund, the Company would also be prohibited from holding securities representing more than 10% of the votes or 10% of the outstanding equity securities of any company.

Historically, the Company did invest for purposes of control and influence over management, but had not done so for some time. Between 2006 and 2008, the Company realized significant gains for its shareholders, and in 2009 and 2013, the Company returned a portion of its cash to shareholders via a return of capital and dividend distributions. Following which, and while the Company looked for further control type investments, the Company had primarily been a passive investor and deployed most of its capital in "blue-chip" investments which had provided a steady stream of dividend income and capital appreciation.

The Company renewed its focus on investments with the potential for growth and where it could be actively involved in management or else have a position of control. There are significant risks associated with the types of opportunities that the Company is now 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. In addition, the Company is no longer able to rely on a stream of dividend income to meet its cash flow needs; therefore, cash flows are expected to be more sporadic, with primarily negative cash flows while the Company is not invested, or while its investments are maturing. These negative cash flows are offset by gains only if the Company's investments become successful.

During January 2019, the Company sold most of its portfolio of investments and currently has approximately $11,733,825 in cash and approximately $22,500 in illiquid securities.

**Quarterly Financial Condition**

Capital Resources

The Company has adequate working capital to fund its expected operating costs through 2019.

Liquidity

As at September 30, 2019, the Company had total assets of $11,778,056 and working capital of $11,271,185 as compared with total assets of $11,421,462 and working capital of $11,365,608 at December 31, 2018.

The Company's cash and cash equivalents increased by $8,777,104 from $2,956,721 as at December 31, 2018 to $11,733,825 as at September 30, 2019. The increase was due to $9,095,615 proceeds from sale of the investments.

As of the date of this MD&A, the Company has no other outstanding commitments other than disclosed under "Commitments, Expected or Unexpected, or Uncertainties" section below. The Company has not pledged any of its assets as security for loans, or otherwise and is not subject to any debt covenants.

Operations

**For the three months ended September 30, 2019 compared with the three months ended September 30, 2018:**

During the three months ended September 30, 2019, the Company recorded revenue of $37,315 (2018 – $78,370), consisting of a loss on sale of investments of $64,674 (2018 – gain on sale of investments of $151,411), an unrealized gain on investments of $57,242 (2018 – unrealized loss on investments of $184,810) and interest, dividends and other income of $44,747 (2018 - $111,769).

During the three months ended September 30, 2019, general expenses were $62,056, a decrease of $4,099 from $66,155 for the same period in 2018. The decrease was mainly due to the decrease in legal and accounting fees (2019 - $11,833; 2018 - $17,170). The expenditures varied over the period but the overall effect of these variances was not material.

During the three months ended September 30, 2019, the Company recorded income tax recovery of $Nil (2018 – $Nil) and deferred income tax expense of $Nil (2018 – $6,882).

The net loss for the three months ended September 30, 2019 was $1,591 or loss per share of $0.00 as compared to net loss $30,354 or loss per share of $0.01 for the same period of 2018.

**For the nine months ended September 30, 2019 compared with the nine months ended September 30, 2018:**

During the nine months ended September 30, 2019, the Company recorded revenue of $637,909 (2018 – loss of $145,356), consisting of a gain on sale of investments of $1,468,834 (2018 - $164,065), an unrealized loss on investments of $1,040,845 (2018 – $633,666) and interest, dividends and other income of $209,920 (2018 - $324,245).

During the nine months ended September 30, 2019, the general expenses were $194,416, a decrease of $20,830 from $215,246 for the same period in 2018. The decrease was mainly due to the decrease in legal and accounting fees (2019 - $42,024; 2018 - $59,944). The other administrative expenditures varied over the period but the overall effect of these variances was not material.

During the nine months ended September 30, 2019, the Company recorded income tax expense of $480,766 (2018 - $Nil) and deferred income tax recovery of $394,572 (2018 – $62,450).

The net income for the nine months ended September 30, 2019, was $300,149 or earnings per share of $0.07 as compared with net loss of $244,972 or loss per share of $0.06 for the same period in 2018.

**Related Party Transactions**

During the quarter, there was no significant change to related party transactions.

**Commitments, Expected or Unexpected, or Uncertainties**

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.

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 September 30, 2019, 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.

**Risk Factors**

In our management discussion and analysis filed on SEDAR April 11, 2019 in connection with our annual financial statements (the "Annual MD&A") we have set out our discussion of the risk factors *Exploration risks*, *Market risks* and *Financing risk* which we believe are the most significant risks faced by Strategem. An adverse development in any one risk factor or any combination of risk factors could result in material adverse outcomes to the Company's undertakings and to the interests of stakeholders in the Company including its investors. Readers are cautioned to take into account the risk factors to which the Company and its operations are exposed. To the date of this document, there have been no significant changes to the risk factors set out in our Annual MD&A.

**Disclosure of Outstanding Share Data**

As at September 30, 2019, 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.

There were no options and warrants outstanding as of September 30, 2019.

On July 18, 2019, the Company obtained an approval from the Exchange to undertake a normal course issuer bid ("NCIB") 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 Raymond James Ltd. starting August 1, 2019, immediately after the current NCIB ends, and will run until July 31, 2020. No purchases have been made as of September 30, 2019 and as of the date of the MD&A.

As at September 30, 2019, 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 on a fully diluted basis.

**Cautionary Statements**

This document contains "forward-looking statements" within the meaning of applicable Canadian securities regulations. All statements other than statements of historical fact herein, including, without limitation, statements regarding exploration results and plans, and our other future plans and objectives, are forward-looking statements that involve various risks and uncertainties. Such forward-looking statements include, without limitation, our estimates of exploration investment, the scope of our exploration programs, and our expectations of ongoing administrative costs. There can be no assurance that such statements will prove to be accurate, and future events and actual results could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from our expectations are disclosed in the Company's documents filed from time to time via SEDAR with the Canadian regulatory agencies to whose policies we are bound. Forward-looking statements are based on the estimates and opinions of management on the date the statements are made, and we do not undertake any obligation to update forward-looking statements should conditions or our estimates or opinions change, except as required by law. Forward-looking statements are subject to risks, uncertainties and other factors, including risks associated with mineral exploration, price volatility in the mineral commodities we seek, and operational and political risks. Readers are cautioned not to place undue reliance on forward-looking statements.