



# STRATEGEM

## CAPITAL

*Strength Through Strategy*

### **STRATEGEM CAPITAL CORPORATION**

#### **FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2018**

# STRATEGEM CAPITAL CORPORATION

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## Independent Auditor's Report

To the Shareholders of Strategem Capital Corporation

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Strategem Capital Corporation (the Company), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

#### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other Information

Management is responsible for the other information. The other information comprises the information included in "Management's Discussion and Analysis", but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Keith Macdonald.



### **CHARTERED PROFESSIONAL ACCOUNTANTS**

Vancouver, BC, Canada  
April 11, 2019

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

	Notes	2018	2017
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$	2,956,721	\$ 3,523,584
Investments	3	8,441,587	8,909,056
Prepaid expenses and deposits		23,154	27,710
<b>Total current assets</b>		11,421,462	12,460,350
<b>TOTAL ASSETS</b>	\$	11,421,462	\$ 12,460,350
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$	32,288	\$ 28,827
Due to related parties	6	23,566	23,627
<b>Total current liabilities</b>		55,854	52,454
<b>Non-current liabilities</b>			
Deferred income tax liability	9	394,572	652,992
<b>Total non-current liabilities</b>		394,572	652,992
<b>EQUITY</b>			
Share capital	4	1,096	1,096
Retained earnings		10,969,940	11,753,808
<b>Total equity</b>		10,971,036	11,754,904
<b>TOTAL EQUITY AND LIABILITIES</b>	\$	11,421,462	\$ 12,460,350

Commitments (Note 7)

Event after reporting period (Note 11)

These financial statements were authorized for issue by the Board of Directors on April 11, 2019.  
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 (LOSS)**  
**FOR THE YEARS ENDED DECEMBER 31**  
(EXPRESSED IN CANADIAN DOLLARS)

	Notes	2018	2017
<b>Revenues</b>			
Interest, dividends and other income		\$ 440,009	\$ 329,964
Gain on sale of investments, net	3	170,090	457,576
Unrealized gain (loss) on investments, net		(1,506,342)	880,030
<b>Total revenues (net)</b>		<b>(896,243)</b>	<b>1,667,570</b>
<b>Expenses</b>			
Consulting and management fees	6	115,920	115,920
Director fees	6	42,000	42,000
Legal and accounting		98,685	91,077
Office and occupancy		24,660	37,199
Shareholder information and filing fees		19,602	23,846
<b>Total expenses</b>		<b>300,867</b>	<b>310,042</b>
<b>Other item</b>			
Foreign exchange gain		154,822	8,713
<b>Total other item</b>		<b>154,822</b>	<b>8,713</b>
<b>Income (loss) before income taxes</b>		<b>(1,042,288)</b>	<b>1,366,241</b>
Deferred income tax recovery (expense)	9	258,420	(266,959)
<b>Net income (loss) and comprehensive income (loss) for the year</b>		<b>\$ (783,868)</b>	<b>\$1,099,282</b>
Earnings (loss) per share - basic and diluted	5	\$ (0.18)	\$ 0.25
Weighted average number of common shares outstanding		4,321,919	4,333,642

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		
	Notes	Number of	Share	Number of	Share	Retained	Total
		Shares	Capital	Shares	Capital	Earnings	Equity
Issued and outstanding							
<b>Balance as at January 1, 2017</b>		4,370,999	\$ -	220	\$ 1,096	\$ 10,745,731	\$ 10,746,827
Normal course issuer bid	4(d)	(49,300)	-	-	-	(91,205)	(91,205)
Net income for the year		-	-	-	-	1,099,282	1,099,282
<b>Balance as at December 31, 2017</b>		4,321,699	\$ -	220	\$ 1,096	\$ 11,753,808	\$ 11,754,904
Net loss for the year		-	-	-	-	(783,868)	(783,868)
<b>Balance as at December 31, 2018</b>		4,321,699	\$ -	220	\$ 1,096	\$ 10,969,940	\$ 10,971,036

See accompanying notes to the financial statements

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

	<b>2018</b>	<b>2017</b>
<b>Cash flow from operating activities</b>		
Net income (loss)	\$ (783,868)	\$ 1,099,282
Adjustments to reconcile to net cash flows from operating activities:		
Gain on sale of investments, net	(170,090)	(457,576)
Unrealized (gain) loss on investments, net	1,506,342	(880,030)
Foreign exchange gain (loss)	25,125	(10,387)
Deferred income tax expense (recovery)	(258,420)	266,959
	319,089	18,248
Changes in non-cash working capital items:		
Prepaid expenses and deposits	4,556	(26,556)
Accounts payable and accrued liabilities	3,461	3,582
Due to related parties	(61)	1,656
	7,956	(21,318)
Changes in other items:		
Proceeds from sale of investments	3,710,211	2,479,012
Purchase of investments	(4,578,994)	(3,764,655)
	(868,783)	(1,285,643)
<b>Net cash used in operating activities</b>	<b>(541,738)</b>	<b>(1,288,713)</b>
<b>Cash flow from financing activities</b>		
Normal course issuer bid - shares cancelled	-	(91,205)
<b>Net cash used in financing activities</b>	<b>-</b>	<b>(91,205)</b>
<b>Effect of exchange rate changes on cash and cash equivalent</b>	<b>(25,125)</b>	<b>10,387</b>
<b>Net change in cash and cash equivalents</b>	<b>(566,863)</b>	<b>(1,369,531)</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>3,523,584</b>	<b>4,893,115</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 2,956,721</b>	<b>\$ 3,523,584</b>
<b>Supplemental cash flow information</b>		
Dividends received	\$ 398,264	\$ 282,816
Interest paid	\$ 6,910	\$ 13,442
Interest received	\$ 33,503	\$ 24,169
Trust income distributions	\$ 8,241	\$ 22,979

Cash and cash equivalents consist of cash of \$2,956,721 (2017 – cash of \$3,523,584).

See accompanying notes to the financial statements

**STRATEGEM CAPITAL CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**  
**(EXPRESSED IN CANADIAN DOLLARS)**

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**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, 2018, the Company reported a net loss of \$783,868 (2017 – net income of \$1,099,282). At December 31, 2018, the Company had cash and cash equivalents of \$2,956,721 (2017 - \$3,523,584) and working capital of \$11,365,608 (2017 - \$12,407,896).

**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 (other than investments using fair value 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, 2018 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 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, 2018 AND 2017**  
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**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 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.

**(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, 2018, the Company did not have any cash equivalents.

**STRATEGEM CAPITAL CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**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 (loss). 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 (loss) 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**  
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**(EXPRESSED IN CANADIAN DOLLARS)**

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**2. Significant accounting policies (Continued)**

**(h) Earnings (loss) per share**

The Company presents the basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the income (loss) 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, 2018 AND 2017**  
 (EXPRESSED IN CANADIAN DOLLARS)

**2. Significant accounting policies (Continued)**

**(j) Financial instruments**

*Adoption of IFRS 9 – Financial Instruments*

On January 1, 2018, the Company adopted IFRS 9 in accordance with the transitional provisions of the standard. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value, replacing the multiple rules in IAS 39, Financial Instruments: Recognition and Measurement. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company’s accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, the Company’s investments are mandatorily measured at fair value through profit or loss (“FVPL”) because they meet the definition of held for trading. The change did not impact the carrying value of any of the Company’s financial assets on the transition date.

The impact on the statement of financial position from the change relating to IFRS 9 has been summarized below.

We have assessed the classification and measurement of our financial assets and financial liabilities under IFRS 9 as follows:

	<b>IAS 39</b>	<b>IFRS 9</b>
<b>Financial Assets</b>		
Cash and Cash Equivalents	Fair value through profit or loss	Amortized cost
Investments	Fair value through profit or loss	Fair value through profit or loss
<b>Financial Liabilities</b>		
Accounts Payables and Accrued Liabilities	Amortized cost	Amortized cost
Due to Related Parties	Amortized cost	Amortized cost

The classification of financial assets is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial asset. Transaction costs with respect to financial instruments classified as fair value through profit or loss are recognized as an adjustment to the cost of the underlying instruments.

The Company’s financial assets are classified into one of the following two measurement categories:

Financial assets held within a business model for the purpose of collecting contractual cash flows (“held to collect”) that represent solely payments of principal and interest (“SPPI”) are measured at amortized cost. Financial assets held within a business model where assets are both held for the purpose of collecting contractual cash flows or sold prior to maturity and the contractual cash flows represent solely payments of principal and interest are measured at FVPL.

**STRATEGEM CAPITAL CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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(EXPRESSED IN CANADIAN DOLLARS)

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**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.

**STRATEGEM CAPITAL CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**  
**(EXPRESSED IN CANADIAN DOLLARS)**

**3. Investments**

At December 31, 2018, the Company holds shares, convertible notes, and mutual funds of certain companies with a total cost of \$8,170,638 (2017 - \$7,131,763) and a total fair value of \$8,441,587 (2017 - \$8,909,056).

As at December 31, 2018, the Company held the following investments:

	<b>Quantity</b>	<b>Cost</b>	<b>Fair Market Value as at December 31,</b>
Altogas Ltd.	15,000	\$ 435,152	\$ 207,000
ARC Resources Ltd	20,000	215,696	161,000
Bank of Nova Scotia	4,000	211,310	271,760
BCE Inc. New	53,344	2,060,840	2,874,708
Blackberry Limited	2,000	84,400	19,420
CDN Natural Res Ltd	5,000	170,850	164,200
CIBC	5,000	372,443	507,400
EFLO Energy Inc.	177,000	157,370	-
Encana Corporation	13,000	352,713	102,310
Enerplus Corporation	20,000	262,615	211,800
Fairfax Financial Holdings Sr1 Pref.	7,500	187,500	132,000
Granite Reit Stapled Unit New	4,000	135,187	211,920
Great West Life-Preferred	10,000	250,000	245,000
ITAFOS	2,666	5,332	2,559
Larentian Bank of Canada	9,000	492,898	342,360
Manulife Financial Corp.	6,000	123,415	116,220
Pan Global Resources Inc.	250,000	50,000	26,250
Petaquilla Minerals Ltd	150,000	84,855	-
PRD Energy Inc.	2,017,000	250,173	-
Rogers Sugar Inc	10,000	54,438	54,300
Royal Bank of Canada	2,500	88,125	233,175
Sun Life Financial Inc.	10,000	298,724	451,500
Telus Corp.	30,000	497,970	1,356,600
Terrace Energy Corp.	50,000	107,500	250
Terrace Energy Corp. - Convertible Notes	250,000	250,000	2,500
Transalta Corp	25,000	399,683	139,250
TransCanada Corp.	7,000	235,662	340,620
US Steel Corp	2,500	85,460	61,798
Vermilion Energy Inc	10,000	331,929	286,600
Various Put and Call 100 Options	(225) <sup>(a)</sup>	(81,602)	(80,913)
<b>TOTAL INVESTMENTS:</b>		<b>\$ 8,170,638</b>	<b>\$ 8,441,587</b>

(a) Negative number denotes short position and represent financial liabilities.

**STRATEGEM CAPITAL CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**  
(EXPRESSED IN CANADIAN DOLLARS)

**3. Investments (Continued)**

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

	Quantity	Cost	Fair Market Value as at December 31, 2017
Altagas 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) <sup>(a)</sup>	(272,634)	(501,730)
<b>TOTAL INVESTMENTS:</b>		<b>\$ 7,131,763</b>	<b>\$ 8,909,056</b>

(a) Negative number denotes short position and represent financial liabilities.

	For the year ended	
	December 31, 2018	December 31, 2017
Gains on sale of investments	\$ 327,750	\$ 540,863
Losses on sale of investments	(157,660)	(83,287)
Gain on sale of investments, net	\$ 170,090	\$ 457,576

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**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, 2018, 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, 2018 and 2017.

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) **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.

On July 18, 2018, the Company obtained an approval from the Exchange to undertake a normal course issuer bid to allow the Company to purchase of up to 216,084 of its Class A common shares, representing approximately 5% of its issued and outstanding shares. Purchases may be made on the open market through the facilities of the Exchange by Raymond James Ltd. between August 1, 2018 and July 31, 2019. No purchases have been made as of December 31, 2018.

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**5. Earnings per share**

There were no options and warrants outstanding as of December 31, 2018 and 2017 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:

	<b>2018</b>	<b>2017</b>
Weighted average number of common shares outstanding – basic	<b>4,321,919</b>	4,333,642
Diluted effect of stock options	-	-
Weighted average number of common shares outstanding –diluted	<b>4,321,919</b>	4,333,642

**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, 2018

	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 <sup>(a)</sup>	\$Nil	\$Nil	\$Nil <sup>(a)</sup>	\$Nil	115,920 <sup>(a)</sup>
Winnie Wong <sup>(c)</sup> Chief Financial Officer	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Mark T. Brown <sup>(b)</sup> Director	\$14,000	\$Nil	\$Nil	\$Nil	\$Nil	\$14,000
Michael Katz <sup>(b)</sup> Director	\$14,000	\$Nil	\$Nil	\$Nil	\$Nil	\$14,000
Marc Blythe <sup>(b)</sup> Director	\$14,000	\$Nil	\$Nil	\$Nil	\$Nil	\$14,000
Pacific Opportunity Capital Ltd. <sup>(c)</sup>	\$55,615	\$Nil	\$Nil	\$Nil	\$Nil	\$55,615

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**6. Related party transactions and balances (Continued)**

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 <sup>(a)</sup>	\$Nil	\$Nil	\$Nil <sup>(a)</sup>	\$Nil	115,920 <sup>(a)</sup>
Winnie Wong <sup>(c)</sup> Chief Financial Officer	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Mark T. Brown <sup>(b)</sup> Director	\$14,000	\$Nil	\$Nil	\$Nil	\$Nil	\$14,000
Michael Katz <sup>(b)</sup> Director	\$14,000	\$Nil	\$Nil	\$Nil	\$Nil	\$14,000
Marc Blythe <sup>(b)</sup> Director	\$14,000	\$Nil	\$Nil	\$Nil	\$Nil	\$14,000
Pacific Opportunity Capital Ltd. <sup>(c)</sup>	\$48,266	\$Nil	\$Nil	\$Nil	\$Nil	\$48,266

Due to related parties:

	Services for	As at December 31, 2018	As at December 31, 2017
Amounts due to:			
Pacific Opportunity Capital Ltd.	Rent, management, and accounting <sup>(c)</sup>	\$ 3,800	\$ 3,873
Mark T. Brown	Director fee	\$ 3,303	\$ 3,297
Michael Katz	Director fee	\$ 3,500	\$ 3,500
Marc Blythe	Director fee	\$ 3,303	\$ 3,297
Yew Street Capital Corporation	Management <sup>(a)</sup>	\$ 9,660	\$ 9,660
TOTAL:		\$ 23,566	\$ 23,627

- (a) During the year ended December 31, 2018, Mr. Morgan was paid management fees of \$115,920 (2017 - \$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 \$4,770 (2017 - \$25,520) 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 \$55,615 (2017 - \$48,266) for rent, accounting and management fees for an accounting and administrative team of three people during fiscal 2018 and 2017 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 December 31, 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 amortized cost and fair value respectively. The carrying value of amounts due to related parties and accounts payable and accrued liabilities approximate their fair value, due to their short-term nature.

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, 2018, would change the Company’s market value of its investments annually by approximately \$84,400.

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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 \$14,100.

(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, 2018 is as follows:

<b>As at December 31, 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 2,956,721	\$ -	\$ -	\$ 2,956,721
Investments	8,441,587	-	-	8,441,587
	\$ 11,398,308	\$ -	\$ -	\$ 11,398,308

The fair value hierarchy of financial instruments measured at fair value as of December 31, 2017 is as follows:

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

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**9. Income taxes**

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

	<b>2018</b>	<b>2017</b>
Income (loss) before income taxes	\$ (1,042,288)	\$ 1,366,241
Expected income tax expense (recovery)	(281,418)	355,223
Non-deductible items and other	(172,273)	107,770
Non-taxable items and other	299,181	(302,340)
Unrecognized benefit of non-capital losses	154,510	-
Recognition of prior year non-capital losses	-	(160,653)
Deferred income tax expense (recovery)	(258,420)	266,959
Net income tax expense (recovery)	\$ (258,420)	\$ 266,959

The significant components of the Company's deferred income tax assets and liabilities at December 31, 2018 and December 31, 2017 based on a combined statutory tax rate of 27% (2017 – 26%) are as follows:

	<b>2018</b>	<b>2017</b>
Deferred income tax assets:		
Non-capital loss carry-forwards	\$ 196,140	\$ 61,360
Capital losses carry-forwards	21,168	20,384
Equipment	77	109
	<u>217,385</u>	<u>81,853</u>
Deferred income tax (liability):		
Investments	(611,957)	(734,845)
	<u>(611,957)</u>	<u>(734,845)</u>
Net deferred income tax liabilities	\$ (394,572)	\$ (652,992)

The Company has available for deduction against future taxable income non-capital losses of approximately \$726,000 (2017 - \$154,000). These losses, if not utilized, will expire through to 2038.

**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.

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**11. Event after reporting period**

In January 2019, the Company updated its investment policy to provide that any future 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. Accordingly, the Company sold most of its current portfolio of investments, resulting in the Company holding approximately \$11 million in cash and approximately \$90,000 in illiquid securities.