



STRATEGEM
CAPITAL

Strength Through Strategy

STRATEGEM CAPITAL CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2021

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

TSX-v: SGE

STRATEGEM CAPITAL CORPORATION

Management Discussion and Analysis

For the year ended December 31, 2021

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



INTRODUCTION

The following is Management’s Discussion and Analysis (“MD&A”) of the financial results of operations of Strategem Capital Corporation (“Strategem” or the “Company”) for the year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Additional Company information, including the Company’s most recent Financial Statements, can be accessed through the System for Electronic Document Analysis and Retrieval (“SEDAR”) website at www.sedar.com and the Company’s website at www.strategemcapital.com.

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

This information is current as of March 30, 2022.

CAUTIONARY STATEMENTS

Certain information regarding the Company as set forth in the MD&A, including management’s assessment of the Company’s future plans and operations, contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the control of the Company, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuation, imprecision of reserve estimates, environmental risks, taxation policies, competition from other producers, the lack of qualified personnel or management, stock market volatility and the ability to access sufficient capital from external or internal sources. The actual results, performance or achievement could materially differ from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them does, what benefits the Company will derive there from.

Forward-looking statements included or incorporated by reference in this document include statements with respect to:

- The amount of the changes to net income and investments as a result of changes in prevailing interest rates, economic and market conditions and company specific news;
- Conversion of 220 Class B shares into Class A common shares;
- The Company’s earnings and loss fluctuation and the ability to identify and acquire investments that will appreciate in value; and
- The Company’s adequate working capital to fund its expected operating costs through 2022.

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DESCRIPTION OF THE BUSINESS

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

The Company is classified as a "venture issuer" for the purpose of National Instrument 51-102. Unless otherwise cited, references to dollar amounts are expressed in Canadian dollars. Throughout this report we refer from time to time to "Strategem", the "Company", "we", "us", "our", or "its". All these terms are used in respect of Strategem Capital Corporation, which is the reporting issuer in this document.

RECENT ACTIVITIES

On September 20, 2021, the Company obtained approval from the Exchange to undertake a Normal Course Issuer Bid to allow the Company to purchase up to 471,846 of its Class A common shares, representing approximately 5% of its issued and outstanding shares. Purchases may be made on the open market through the facilities of the Exchange by the designated broker until September 19, 2022.

During the year ended December 31, 2021, the Company invested in short term securities and has recognized an unrealized gain of \$11,178. The Company continues to look for investments with the potential for growth and where it could be actively involved in management or have a position of control.

SELECTED FINANCIAL INFORMATION

The following financial information is derived from the Company's financial statements for the years ended December 31, 2021, December 31, 2020 and December 31, 2019 which have been prepared in accordance with IFRS.

(expressed in \$ thousands, except per share amounts)	Years Ended December 31		
	2021	2020	2019
Total Revenues	11,986	113	696
Net income (loss) for the period	8,283	(1,700)	252
Earnings (loss) per share – basic and diluted ⁽¹⁾	1.10	(0.39)	0.06
Total assets	33,118	9,434	11,739
Current Liabilities	936	85	516
Non-Current Liabilities	2,725	-	-
Working capital	32,182	9,349	11,223

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

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SUMMARY OF QUARTERLY RESULTS

(expressed in \$ thousands, except per share amounts)	2021 Q4	2021 Q3	2021 Q2	2021 Q1	2020 Q4	2020 Q3	2020 Q2	2020 Q1
Interest, dividends and other income	137	95	87	28	11	10	35	18
Gain on sale of investments	147	14	355	5	8	-	-	-
Unrealized gain (loss) on investments, net	4,799	406	(1,802)	7,715	(138)	33	23	113
Total revenues	5,083	515	(1,360)	7,748	(119)	43	58	131
Total expenses	574	392	147	344	1,578	55	54	90
Foreign exchange gain (loss)	(1)	8	4	(3)	(59)	(16)	(30)	65
Income (loss) for the period	1,783	602	(1,503)	7,401	(1,753)	(28)	(27)	108
Earnings (loss) per share – basic and diluted ⁽¹⁾	0.19	0.06	(0.22)	1.74	(0.39)	(0.01)	(0.01)	0.02
Total assets	33,118	28,198	27,367	17,100	9,434	11,321	11,349	11,375
Working capital	32,182	27,675	27,073	16,750	9,349	11,281	11,308	11,331

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

DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

The Company's earnings and losses are expected to fluctuate significantly and will depend on its ability to identify and acquire investments that will appreciate in value (see "Description of the Business", above), and the exchange rate fluctuations.

Year ended December 31, 2021 compared to year ended December 31, 2020

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

During the year ended December 31, 2020, the Company recorded total revenue of \$113, consisting of interest, dividends and other income of \$74, gain on sale of investments of \$8 and unrealized gain on investment of \$31.

For the year ended December 31, 2021, expenses were \$1,457 compared to \$1,777 for the year ended December 31, 2020. During the year ended December 31, 2021 the Company recognized \$1,087 in management fees based on compensation agreements approved by the Company's board of directors, and the Chief Science Officer & Director of Life Science joined the Company. For the year ended December 31, 2020, the Company paid \$1,450 in severance and release payments to former management. The variances in other administrative expenses over the periods was not material.

In 2021, the Company recorded income tax recovery of \$471 (2020 - \$4) and deferred income tax liability of \$2,725 (2020 - \$nil).

The net income for the year ended December 31, 2021 was \$8,283 or earnings per share of \$1.10, compared to net loss of \$1,700 or loss per share of \$0.39 for the year ended December 31, 2020.

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Three months ended December 31, 2021 compared to Three months ended December 31, 2020

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

During the three months ended December 31, 2020, the Company recorded total revenue of (\$119), consisting of interest, dividends and other income of \$11, gain on sale of investments of \$8 and unrealized loss on investment of \$138.

For the three months ended December 31, 2021, expenses were \$574 compared to \$1,578 for the three months ended December 31, 2020. For the three months ended December 31, 2021, the Company recognized \$426 in management fees based on compensation agreements approved by the Board of Directors. In the prior year comparative period, the Company paid \$1,450 in severance and release payments to former management. The variances in other administrative expenses over the periods was not material.

The net income for the three months ended December 31, 2021 was \$1,783 or earnings per share of \$0.19 compared to net loss of \$1,753 or loss per share of \$0.39 in the prior year comparable period.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2021, the Company had total assets of \$33,118 and working capital of \$32,182 as compared with total assets of \$9,434 and working capital of \$9,349 at December 31, 2020. The Company's cash position (cash and cash equivalents) at December 31, 2021 was \$2,122 compared to \$4,773 as at December 31, 2020.

The Company has adequate working capital to fund its expected operating costs through 2022.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In the normal course of business, the Company's activities expose it to a variety of financial risks that may affect its operating performance. These risks are credit risk and market risk (including interest rate risk, currency risk and other price risk). The level of risk to which the Company is exposed depends on the type of investments the Company holds. The value of investments can fluctuate daily as a result of changes in prevailing interest rates, economic and market conditions and company specific news.

(a) Credit risk

Credit risk is the risk that a security issuer or counterparty to a financial instrument will fail to meet its financial obligations. The Company is not exposed to significant credit risk on its cash and cash equivalents since they are placed with major financial institutions and brokers. The credit risk exposure of the Company's investments is represented by their fair values disclosed.

(b) Market risk

Market risk is the risk that changes in market factors, such as commodity prices, interest rates or foreign exchange rates, will affect the value of the Company's financial statements. The Company's investment policy states that investments will be made on the basis of investing for purposes of control or for the purpose of being actively involved in management and restricts passive investments. Changes in the future pricing and demand of certain commodities may have a material impact on the market value of the Company's resource, energy, and other investments. The nature of such investments is normally dependent on the invested company being able to raise additional capital to further development and to determine the commercial viability of its resource properties. The value of each investment is also influenced by the outlook of the issuer and by general economic and political conditions. Management mitigates the risk of loss resulting from this concentration by monitoring the trading value of the investments on a regular basis. All securities present a risk of loss of capital. The maximum risk resulting from financial instruments is equivalent to their fair value.

A 1% change in future pricing and trading value of its investments as at December 31, 2021, would change the Company's market value of its investments annually by approximately \$309.

(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 \$21.

(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 \$3.

(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:

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- 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, 2021 is as follows:

As at December 31, 2021	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	2,122	-	-	2,122
Investments	30,645	-	313	30,958
	32,767	-	313	33,080

The fair value hierarchy of financial instruments measured at amortized cost and fair value as of December 31, 2020 is as follows:

As at December 31, 2020	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	4,773	-	-	4,773
Investments	4,661	-	-	4,661
	9,434	-	-	9,434

SIGNIFICANT ACCOUNTING POLICES

Significant accounting policies are detailed in the Company's financial statements for the year ended December 31, 2021.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of these financial statements requires management to make judgments and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these judgments and estimates. The financial statements include judgments and estimates which, by their nature, are uncertain. The impacts of such judgments and estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of judgments and estimates that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

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Estimates

- The carrying value of the investments, the estimated unrealized gains or losses recorded from the fair value fluctuations, and the recoverability of the carrying value which are included in the statements of financial position;
- The provision for income taxes which is included in the statements of comprehensive income (loss) and composition of deferred income tax liabilities included in the statements of financial position; and
- The amount of the changes to comprehensive income (loss) and investments as a result of changes in prevailing interest rates, foreign exchange, economic and market conditions and company specific news.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Changes in Internal Control Over Financial Reporting ("ICFR")

In connection with National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109") adopted in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis. The Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's certifying officers are responsible for establishing and maintaining the Company's disclosure controls and procedures. Management, including the certifying officers, have evaluated the procedures of the Company and have concluded that they provide reasonable assurance that material information is gathered and reported to senior management in a manner appropriate to ensure that material information required to be disclosed in reports filed or submitted by the Company is recorded, processed, summarized and reported within the appropriate time periods.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at December 31, 2021, the Company had 9,436,928 Class A common shares and 220 Class B common shares issued and outstanding. Each Class B common share can be exchanged for one Class A common share. Upon exchange, the Class B voting common shares will be cancelled by the Company.

As at March 30, 2022

Authorized	Unlimited
Issued and outstanding shares	9,378,748
Warrants	5,191,229
Fully diluted	14,569,977

ADDITIONAL INFORMATION

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