

# SPACKMAN EQUITIES GROUP

## **Spackman Equities Group Inc. Management's Discussion and Analysis For the three and nine months ended September 30, 2016**

### **OVERVIEW**

The following Management's Discussion and Analysis ("MD&A") provides additional analysis of the operations, financial position and financial performance of Spackman Equities Group Inc. ("SEGI" or the "Company") for the three and nine months ended September 30, 2016. It is supplementary information and should be read in conjunction with the Company's consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2016 and for the year ended December 31, 2015. Reference should also be made to the Company's filings with the Canadian securities regulatory authorities that are available at [www.sedar.com](http://www.sedar.com).

This MD&A is the responsibility of the management. The Board of Directors carries out its responsibility for the review of this disclosure principally through its audit committee which is comprised of a majority of independent directors. The audit committee reviews and, prior to its publication and pursuant to the authority delegated to it by the Board of Directors, approves this disclosure.

SEGI is a publicly-traded company listed on the TSX Venture Exchange under the symbol "SQG".

SEGI is an investment holding company that invests into and develops small/medium-sized growth companies that possess industry-specific know-how or proprietary technologies, primarily in Asia. SEGI also makes investments in selected publicly-traded companies that SEGI believes are attractive investment propositions. The objectives of SEGI are to (i) invest into or acquire businesses with compelling growth potential at attractive valuations, (ii) build a diversified and balanced portfolio of investments and (iii) deliver the collective value derived from the performance of its portfolio of investments to the shareholders of SEGI. SEGI's holdings include:

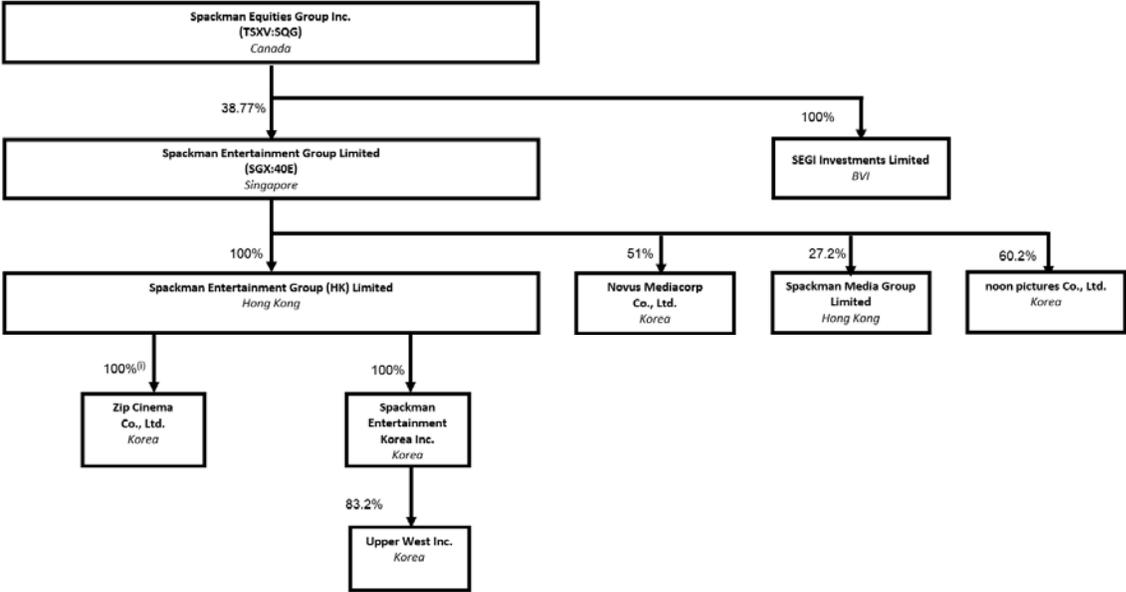
1. 38.77% ownership of Singapore-incorporated Spackman Entertainment Group Limited ("SEGL"), which is listed on the Catalist of the Singapore Exchange (ticker: 40E) and is a leading Korean film and entertainment company that wholly-owns Zip Cinema Co., Ltd., 51% of Novus Mediacorp Co., Ltd., and 27.2% of Spackman Media Group Limited;
2. 100% of SEGI Investments Limited, an investment company that invests into public equities; and
3. marketable securities and a loan receivable.

**FORWARD-LOOKING STATEMENTS**

Matters may be included in this MD&A that constitute "forward-looking" information within the meaning of Canadian securities law. Such forward-looking statements may be identified by words such as "plans", "proposes", "estimates", "intends", "expects", "believes", "may" or words of a similar nature. There can be no assurance that such statements will prove to be accurate. Actual results and future events could differ materially from such statements. Factors that could cause actual results to differ materially include among others, regulatory risks, risk inherent in foreign operations, commodity prices and competition. Most of these factors are outside the control of the Company. All subsequent forward-looking statements attributable to the Company or its agents are expressly qualified in their entirety by these cautionary comments. Except as otherwise required by applicable securities statutes or regulation, the Company expressly disclaims any intent or obligation to update publicly forward-looking information, whether as a result of new information, future events or otherwise.

**STRUCTURE AND HOLDINGS**

The following chart shows the structure and holdings of the Company as of the date of the MD&A:



NOTES:  
 (i) Spackman Entertainment Group (HK) Limited ("SEGHK") owns 92.996% of Zip directly, and the remaining 7.004% through its wholly-owned subsidiary Spackman Equities Limited ("SEL")

**Spackman Entertainment Group Limited**

Spackman Entertainment Group Limited ("SEGL") is a leading entertainment production company that is primarily engaged in the independent development, production, presentation, and financing of theatrical motion pictures in Korea. In addition to the film business, SEGL also makes investments into entertainment companies and film funds that can financially and

strategically complement its existing core operations. SEGL is listed on the Catalist of the Singapore Exchange Securities Trading Limited under the ticker 40E (Bloomberg: SEG SP Equity).

SEGL's Zip Cinema Co., Ltd. ("**Zip Cinema**") is one of the most recognised film production labels in Korea and has originated and produced some of Korea's most commercially successful theatrical films, consecutively producing 7 profitable movies since 2009 representing an industry leading track record. Recent theatrical releases of Zip Cinema's motion pictures include some of Korea's highest grossing and award-winning films such as *THE PRIESTS* (2015), *COLD EYES* (2013), and *ALL ABOUT MY WIFE* (2012). Zip Cinema is the producer of *MASTER*, starring Lee Byung-hun, Kim Woo-bin, and Gang Dong-won, to be released in December 2016.

SEGL also owns Novus Mediacorp Co., Ltd. ("**Novus Mediacorp**"), an investor, presenter, and/or ancillary distributor for a total of 55 films (36 Korean and 19 foreign) including *SECRETLY*, *GREATLY*, which was one of the biggest box office hits of 2013 starring Kim Soohyun of *MY LOVE FROM THE STARS* fame, as well as *FRIEND 2: THE GREAT LEGACY*. In 2012, Novus Mediacorp was also the ancillary distributor of *ALL ABOUT MY WIFE*, a top-grossing romantic comedy produced by Zip Cinema. Novus Mediacorp is the co-producer of *LIFE RISKING ROMANCE*, starring Ha Ji-won, which will be released in the fourth quarter of 2016.

SEGL films are theatrically distributed and released in Korea and overseas markets, as well as for subsequent post-theatrical worldwide release in other forms of media, including cable TV, broadcast TV, IPTV, video-on-demand, and home video/DVD, etc. SEGL releases all of its motion pictures into wide-theatrical exhibition initially in Korea, and then in overseas and ancillary markets.

SEGL is a strategic shareholder of Spackman Media Group Limited ("**SMGL**"), an associated company of SEGL. SMGL, a company incorporated in Hong Kong, together with its subsidiaries, is collectively the largest talent agency and leading entertainment content production company in Korea, collectively managing 50 artistes including some of the top names in the Korean entertainment industry. SMGL operates the talent management business through such renowned agencies as MSteam Entertainment Co., Ltd., Fiftyone K Inc., SBD Entertainment Inc., UL Entertainment Co., Ltd., and Kook Entertainment Co., Ltd.

On 21 August 2015, Spackman Media Group Pte., Ltd. ("**SMGPL**") engaged KGI Capital Limited to act as the Sole Global Coordinator, Sole Sponsor, Bookrunner and Lead Manager in respect of the proposed listing of SMGPL and its affiliates, which together will form the resultant listing group subsequent to a restructuring exercise, on The Stock Exchange of Hong Kong. Subsequently, on 30 December 2015, the Group announced a share swap agreement for the sale of its 45.8% equity interest in its associated company, SMGPL, in consideration for 7,500,000 ordinary shares in the capital of Spackman Media Group Limited ("**Share Swap**"). On 13 May 2016, SEGL completed the Share Swap of its 45.8% interest in SMGPL in consideration for an approximate 27.2% interest in SMGL. Upon completion of the Share Swap, SMGPL became a wholly-owned subsidiary of SMGL.

On April 19, 2016, SEGL announced a proposed restructuring of its loss-making assets pursuant to which SEGL would sell its entire 100% equity interest in Opus Pictures Limited Liability Company ("**Opus Pictures**") and its 51.5% equity interest in UAA Korea Co., Ltd to Tae Hun Lee, the former Executive Director and Chief Executive Officer of SEGL. Tae Hun Lee resigned as Executive Director and Chief Executive Officer of SEGL on March 8, 2016.

The consideration for the proposed restructuring was satisfied by way of a selective share buyback of 14,180,000 ordinary shares of the Company from the purchaser, to be effected by

the Company pursuant to Section 76D of the Companies Act (Chapter 50) of Singapore (the "Selective Buyback")

The restructuring allowed SEGL to dispose of Opus Pictures, which had incurred significant losses over the past several years. This enables SEGL to streamline its core operations and to better focus its resources on its profitable theatrical film business carried out through its subsidiaries Zip Cinema (100% owned) and Novus Mediacorp Co., Ltd. (51.0% owned). SEGL obtained approval from shareholders for the share buy-back at an extraordinary general meeting of shareholders held on August 12, 2016, and SEGL announced on September 14, 2016 that the restructuring had been completed.

Details concerning the operations, financial results and financial standing of SEGL and its subsidiaries Zip and Opus in 2015 are contained in SEGL's Annual Report for 2015 and its quarterly filings for 2016 which are available at [www.spackmanentertainmentgroup.com](http://www.spackmanentertainmentgroup.com).

### ***RESULTS OF OPERATIONS***

For the third quarter ended September 30, 2016, the Company had investment income (loss) of \$1,750,000 compared with investment income (loss) of \$(9,490,000) for the third quarter of 2015. Investment income (loss) for the quarter is primarily the unrealized gain or loss on the fair value of the Company's investment in SEGL, which trades on the Catalist of the Singapore Exchange (ticker 40E). The share price of SEGL declined from S\$0.15 at December 31, 2015 to S\$0.10 at June 30, 2016 to S\$0.115 at September 30, 2016.

General and administrative expenses totalled \$162,000 for the current quarter compared with \$213,000 for the third quarter of 2015. The decrease was mainly the result of a decrease in rental expense for the Hong Kong office of \$55,000 in rental payments received from SMGL in the quarter and a decrease of wages and salaries of \$28,000, offset by an increase in service fees of \$14,000 and an increase of \$16,000 in management fees. The management fees increased due to a reallocation of consulting fees from the previous comparative quarter ending September 30, 2015.

As a result of the foregoing, the Company recorded a net income and comprehensive income of \$1,590,000 (\$0.01 per share) for the current quarter compared with a net loss and comprehensive loss of \$(9,654,000) (\$(0.06) per share) for the third quarter of 2015.

## ***SUMMARY OF SELECTED QUARTERLY INFORMATION***

	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Investment Income								
Gain (loss), realized and unrealized, on marketable securities	1,749,925	(6,538,239)	(11,027)	15,645,712	(9,653,950)	(2,526,823)	(12,711,294)	(15,536,409)
Other income	nil	2	195	12,124	13,599	5,394	9	(10,092)
Net Income (Loss)								
Total	1,590,446	(5,820,803)	(205,264)	14,531,669	(9,653,950)	(2,526,823)	(11,549,306)	(18,839,748)
Per Share	0.01	(0.04)	0.00	0.10	(0.06)	(0.02)	(0.08)	(0.13)
Per Share diluted	0.01	(0.04)	0.00	0.10	(0.06)	(0.02)	(0.08)	(0.13)

### ***LIQUIDITY, FINANCIAL POSITION AND CAPITAL RESOURCES***

Cash and cash equivalents, marketable securities and investments in shares of public decreased to \$17,403,000 at September 30, 2016, from \$22,715,000 at the end of 2015 and \$7,378,000 at September 30, 2015.

The fair value of the Company's investment in SEGL (ticker 40E) on the Catalist of the Singapore Exchange declined from \$21,900,000 at December 31, 2015 to \$17,109,000 at September 30, 2016.

The decrease in cash and cash equivalents, marketable securities and investments in shares of public companies in the current quarter was mainly due to the decline in the fair value of the Company's investment in SEGL and the payment of operating expenses of \$159,000.

The Company's capital resources consist of cash and cash equivalents and marketable securities, which are used to fund the Company's financial requirements. The company's general and administrative expenses, substantially all of which are committed and non-discretionary in nature, were \$162,000 for the current quarter, \$823,000 for the 2015 year and \$213,000 for the third quarter of 2015.

Current liabilities were \$20,000 at September 30, 2016, compared to \$33,000 at the end of 2015 and \$40,000 at September 30, 2015.

### ***ANALYSIS OF FINANCIAL CONDITION AND FINANCIAL PERFORMANCE***

The financial condition of the Company at September 30, 2016 and the financial performance in the current quarter declined from the 2015 year end as a result of the decrease in the fair value of the Company's investment in SEGL (ticker 40E) on the Catalist of the Singapore Exchange from \$21,900,000 at December 31, 2015 to \$17,109,000 at September 30, 2016 and the payment of operating expenses of \$169,000.

At September 30, 2016, the Company had cash and cash equivalents, marketable securities and investments in shares of public companies of \$17,403,000 (December 31, - 2015 \$22,715,000 and September 30, 2015 - \$7,378,000) and current liabilities of \$20,000

(December 31, 2015 - \$33,000 and September 30, 2015 - \$40,000). The deferred tax liability at September 30, 2016 decreased to \$nil (December 31, 2015 -\$868,000).

### **DIRECTORS AND OFFICERS COMPENSATION**

The following table sets out all compensation paid to directors of the Corporation for their services as directors in the third quarter of 2016.

<b>Name</b>	<b>Fees earned (\$)</b>	<b>Sharebased awards (\$)</b>	<b>Optionbased awards (\$)</b>	<b>Nonequity incentive plan compensation (\$)</b>	<b>Pension value (\$)</b>	<b>All other compensation (\$)</b>	<b>Total (\$)</b>
Douglas Babcook	1,875	Nil	Nil	Nil	Nil	Nil	1,875
William Hale	1,875	Nil	Nil	Nil	Nil	Nil	1,875
John Pennal	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Charles Spackman	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Martin Mohabeer	1,875	Nil	Nil	Nil	Nil	Nil	1,875
Richard Lee	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Mr. Spackman received US\$30,000 in the third quarter of 2016 as Chairman and Chief Executive officer. Mr. Pennal received \$15,000 in the third quarter of 2016 as Vice President. Alex Falconer received US\$8,000 in the third quarter of 2016 as Chief Financial Officer.

### **RELATED PARTY TRANSACTIONS**

The following related party transactions occurred and were reflected in the consolidated financial statements during the periods ended September 30, 2016 and 2015 as follows:

### **REMUNERATION OF KEY PERSONNEL**

	<b>Three Months September 30, 2016</b>		<b>Nine Months September 30, 2016</b>	
	2016	2015	2016	2015
Management salaries	\$ 63,002	\$ 61,816	\$ 194,469	\$ 183,356
Directors' fees	22,569	15,000	22,569	22,500
<b>Total</b>	<b>\$ 85,571</b>	<b>\$ 76,816</b>	<b>\$ 217,038</b>	<b>\$ 205,856</b>

Key management personnel are those individuals having authority and responsibility or planning, directing and controlling the activities of the Company and its subsidiary including the Company's Board of Directors. The Company considers key management to be the members of the Board of Directors and the Chief Executive Officer.

During the three month period ended September 30, 2016, the Company received \$34,483 (September 30, 2015 - \$30,582) in rental payments from SEGL which has a common director.

During the three month period ended September 30, 2016, the Company paid \$9,788 (September 30, 2015 - \$9,703) in consulting fees to an officer of SEGL which has a common director.

### **COMMITMENTS**

The Company has entered into an operating lease agreement for its business premises in Hong Kong with rental payments of HKD \$116,280 (CAD \$19,767) per month. The lease expires on November 15, 2018 subject to renewal. In addition to the monthly rental payment, the Company is responsible for the proportionate share of common area costs and property taxes.

The Company has an employment agreement with the CEO whereby he will be entitled to compensation in the form of investment proceeds resulting from the disposition of the Company's investments during a certain period.

### **SIGNIFICANT ACCOUNTING POLICIES**

These interim consolidated financial statements of the Company and its subsidiary were prepared using accounting policies consistent with IFRS. A summary of significant accounting policies under IFRS is presented in Note 3 of the consolidated financial statements of the Company for the year ended December 31, 2015.

### **RISK FACTORS AND RISK MANAGEMENT**

***SEGI shareholders and potential investors in SEGI should carefully consider the following risk factors and all the other information contained in this MD&A when evaluating SEGI and its common shares.***

An investment in the Company's shares involves a number of risks, many of which are beyond its control. The risks and uncertainties set out below are all of the known risks, which are deemed to be material to the Company's business or the results of its operations. When reviewing forward-looking statements and other information contained in this prospectus, investors and others should carefully consider these factors, as well as other uncertainties, potential events and industry-specific factors that may adversely affect the Company's future results. If any of these risks should actually occur, the Company's business, financial condition, results of operations, cash flows and prospects could be harmed. Such risks and uncertainties are not the only ones the Company faces. Additional risks and uncertainties of which the Company is currently unaware or that are deemed immaterial may also adversely affect the Company's business, financial condition, and results of operations, cash flows and prospects.

## **Liquidity and Negative Cash Flows**

The Company's cash on hand, cash equivalents, marketable securities and public investments at September 30, 2016 was \$17,403,000. This amount should be adequate to continue to fund the Company's operations for the foreseeable future. If the Company had to raise capital to fund its operations or to make further investments in its businesses it would have to sell assets, or raise funds through the sale of additional equity or a combination of those two things. There may not be a ready market for the sale of its assets and it may not be possible to issue additional shares or other securities, or the issue of additional shares or other securities if it were to be possible may result in significant dilution to the interests of existing shareholders.

The Company's principal asset is its investment in the shares of its subsidiary SEGL that owns two film production businesses in Korea and certain other related investments. The film production businesses are at an early stage of development and will likely require additional funding to continue operations or to develop their business plans until they become self funding. Revenues from the film production businesses owned by the SEGL are very unpredictable and SEGL may experience negative cash flow from operating activities. If that is the case, SEGL would have to fund its operations with its cash on hand, cash equivalents and marketable securities.

## **Limited Diversification of Investments**

Due to the small size of the Company and the fact that it has only a limited number of investments, the Company is subject to a greater risk of a downturn in one or more of its investments. A concentration of the Company's invested funds in a limited number of businesses –in particular in the film production business in Korea through the shares of its subsidiary SEGL - means that in the event that any such business or industry or investment is unsuccessful or experiences a downturn, this will likely have a material adverse effect on the Company's business, results from operations, and financial condition. It also means that the Company is more exposed to business cycles than it would be if it owned a larger number of investments, which were diversified over various industries with differing business cycles in different geographic areas.

## **Industry Risks**

Each of the Company's investees is subject to the risks inherent in the industry in which it operates. In the case of SEGL, its businesses are very dependent on the strength of the Korean film industry and SEGL's ability to continue to finance and make successful, profitable movies. Illegal piracy of films and illicit internet downloads of films are also risks which will continue to threaten the Korean film industry.

## **Competition**

The Korean film production companies owned by the Company's subsidiary SEGL face intense competition in their respective markets, including competition from other companies some of whom have greater financial and other resources, and more advanced technological development. The movie production industry is a world-wide industry and films made in Hollywood, India and many other countries compete with Korean films on the worldwide stage for viewership. There can be no assurance that they will be able to successfully compete

against their respective competitors or that such competition will not have a material adverse effect on their businesses, financial condition, results of operations and cash flows.

### **Currency Fluctuations**

The Company is exposed to fluctuations in the value of the currencies of the Republic of Korea, the Special Administrative Region of Hong Kong, Singapore, Canada and the United States.

The Company does not use currency derivatives to hedge against adverse currency fluctuations.

### **Legal Claims and Other Contingencies**

The Company and its investee companies may become parties to lawsuits, claims and litigation arising in the ordinary course of business. Such law suits could result in significant costs and the outcome of such law suits could have a material negative impact on the Company's financial position, operating results, or the Company's ability to continue to carry on its business activities.

### **Lack of Market for the Company's Shares**

Although the Company's common shares are listed and traded on the TSX Venture Exchange, there may not be a liquid market for the shares and any market price for the shares may not reflect the underlying value of the Company's business and assets.

### **Economic Conditions in Korea**

The principal asset of the Company is its investment in the shares of SEGL and the majority of SEGL's operations and assets are located in the Republic of Korea through its ownership of two film production companies based in Korea and other investments in Korea. As a result, the Company is subject to political, economic, legal and regulatory risks specific to Korea. From early 1997 until 1999, Korea experienced a significant financial and economic downturn, from which it has now recovered.

### **Tensions with North Korea**

Relations between the Republic of Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase or change abruptly as a result of current and future events. In recent years, there have been heightened security concerns stemming from North Korea's nuclear weapons and long-range missile programs and increased uncertainty regarding North Korea's actions, particularly in light of the recent leadership change, and possible responses from the international community. Tensions have escalated on the Korean peninsula, and there can be no assurance that the level of tension will not escalate further in the future.

Any further increase in tensions which may occur, for example, if military hostilities occur or North Korea experiences a leadership or economic crisis, could have a material adverse effect on our the Company's operations and the market value of its common shares.

### **Financial Instability in Other Countries**

The Korean market and the Korean economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia. Financial turmoil in Asia and elsewhere in the world in recent years has adversely affected the Korean economy. Although economic conditions are different in each country, investors' reactions to

developments in one country can have adverse effects on the securities of companies in other countries. A loss of investor confidence in the financial systems of emerging and other markets may cause increased volatility in Korean financial markets. It is possible that the financial events of the type that occurred in emerging markets in Asia in 1997 and 1998 will happen again which would have an adverse effect on the market value of the Company's common shares.

## ***INTERNAL CONTROLS***

### **Disclosure controls and procedures**

Management of the Company is responsible for establishing and maintaining disclosure controls and procedures for the Company as defined under National Instrument 52-109 issued by the Canadian Securities Administrators. The Company as a venture issuer is not required to certify the design and evaluation of the issuer's disclosure controls and procedures.

### **Internal controls over financial reporting**

Management of the Company is responsible for designing internal controls over financial reporting for the Company as defined under National Instrument 52-109 issued by the Canadian Securities Administrators. The Company as a venture issuer is not required to certify the design and evaluation of the issuer's disclosure controls and procedures.

### **International Financial Reporting Standards**

The Company's financial statements for the quarter ended September 30, 2016 and the year ended December 31, 2015 and the comparative information presented in such financial statements have been prepared in accordance with IFRS applicable to the presentation of financial statements.

## ***STRATEGY AND FUTURE DIRECTION***

The Company's initial strategy and focus was to (i) identify and acquire small/medium sized growth companies, primarily in the Republic of Korea, that possess proprietary know-how or technologies and a track record of profitable operations; (ii) assist the management of each acquired company to enhance its value; (iii) originate collaboration amongst the portfolio of acquired companies to create new opportunities for one another and leverage off each others' capabilities and resources; and (iv) reflect the collective value derived from the performance of the acquired businesses on the share price of the Company. As a result of the implementation of this strategy the Company made a number of investments in the Korean film and entertainment business through its subsidiary SEGL.

The Company's principal asset is its 38.77% interest in the shares SEGL that are listed and trade on the Catalist of the Singapore Exchange (ticker 40E). On the day immediately prior to the date of this MD&A, the shares closed at a price of S\$0.136, and the market value of the Company's investment in SEGL is S\$21,026,036 (\$22,360,657 or \$0.15 per SEGI share). SEGI's strategy and focus will continue to be to work with the management of SEGL and its other investee companies to enhance the value of their businesses and thereby improve the value of the Company's investment.

SEGI may also opportunistically make investments in selected small-capitalization publicly-traded companies that the Company believes are attractive investment propositions, or undervalued relative to their underlying financial fundamentals and operating performance. After making an investment into such publicly-traded companies, SEGI plans to encourage and implement such measures as changes in management strategy, business diversification, cost cutting, strategic mergers & acquisitions, capital restructuring, improvements in investor relations activities, and other initiatives typically undertaken by corporate restructuring

specialists, in order to seek capital appreciation. Such small-cap stocks targeted by SEGI are investment opportunities that are normally overlooked by institutional investors (i.e. private equity funds, hedge funds, special situations funds, etc.) due to their small size and relatively negligible presence in the market, making such opportunities an attractive niche for SEGI to exploit without significant competition.

The ultimate objective of the Company will be to reflect the collective value derived from the performances of SEGL and other investments in the Company's share price for the benefit of the Company's shareholders.

#### ***OUTSTANDING SHARE DATA***

The Company has authorized an unlimited number of common shares and an unlimited number of preference shares issuable in series. At December 31, 2015, September 30, 2016 and at the date of this MD&A, there were outstanding 148,900,183 common shares and options to acquire an additional 8,745,000 common shares. There are no warrants outstanding.

#### ***OTHER INFORMATION***

Additional information related to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

November 28, 2016