

# SPACKMAN EQUITIES GROUP

## **Spackman Equities Group Inc.**

### **Management's Discussion and Analysis For the year ended December 31, 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 year ended December 31, 2016. It is supplementary information and should be read in conjunction with the Company's consolidated financial statements and accompanying notes for the year ended December 31, 2016. 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.

The effective date of this MD&A is May 1, 2017. Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

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:

- 32.85% 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. and Spackman Entertainment Korea Inc.;
- 100% of SEGI Investments Limited, an investment company that invests into public equities; and
- marketable securities.

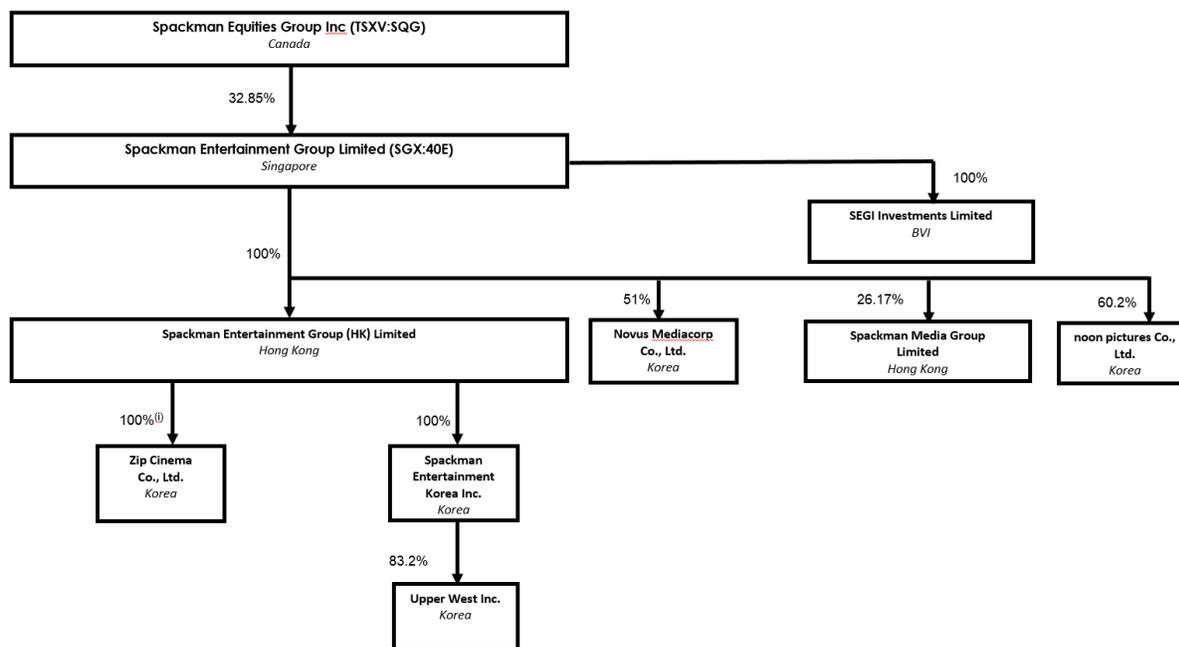
#### **FORWARD-LOOKING STATEMENTS**

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 8 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 *MASTER* (2016), *THE PRIESTS* (2015), *COLD EYES* (2013), and *ALL ABOUT MY WIFE* (2012).

SEGL also owns Novus Mediacorp Co., Ltd. ("**Novus Mediacorp**"), an investor, presenter, and/or ancillary distributor for a total of 75 films (52 Korean and 23 foreign) including *SECRETLY*, *GREATLY*, which was one of the biggest box office hits of 2013 starring Kim Soo-hyun of *MY LOVE FROM THE STARS* fame, as well as *FRIEND 2: THE GREAT LEGACY*. In 2012, Novus Mediacorp was also the

## **Spackman Entertainment Group Limited...con't**

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 was released in December 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 over 60 artistes including some of the top names in the Korean entertainment industry. SMGL operates the talent management business through such renowned agencies as MStem Entertainment Co., Ltd., UAA & Co., Fiftyone K Inc., SBD Entertainment Inc., Kook Entertainment Co. Ltd., and UL 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 19 April 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 8 March 2016. SEGL obtained approval from shareholders for the share buy-back at an extraordinary general meeting of shareholders held on 12 August 2016 and SEGL announced on 14 September 2016 that the restructuring had been completed.

## **RESULTS OF OPERATIONS**

For the year ended December 31, 2016, the Company had investment income of \$5,645,000 compared with investment (loss) of \$(9,215,000) for the year ended 2015. Investment income for the year is primarily the unrealized gain of \$5,654,000 on the fair value of the Company's investment in SEGL offset by the unrealized (loss) of \$(9,000) on the fair value of marketable securities held by the Company.

General and administrative expenses totalled \$651,000 for the year compared with \$823,000 for 2015. The decrease was mainly the result of a decrease in rental expense for the Hong Kong office due to an increase of \$19,000 in rental payments received from SEGL in the year, a decrease of \$8,000 in consulting fees paid in the year, an increase in service fees of \$24,000 and a small decrease in management salaries (2016 - \$260,000; 2015 - \$261,000).

As a result of the foregoing, the Company recorded net income and comprehensive income of \$4,471,941 (\$0.03 per share) for the 2016 year (net loss of \$9,198,000 (\$0.06 per share) for 2015).

**SUMMARY OF SELECTED QUARTERLY INFORMATION**

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Investment Income								
Gain (loss), realized and unrealized, on marketable securities	10,444,117	1,749,925	(6,538,239)	(11,027)	15,645,712	(9,653,950)	(2,526,823)	(12,711,294)
Other income	nil	nil	2	195	12,124	13,599	5,394	9
Net Income (Loss)								
Total	8,907,562	1,590,446	(5,820,803)	(205,264)	14,531,669	(9,653,950)	(2,526,823)	(11,549,306)
Per Share	0.06	0.01	(0.04)	0.00	0.10	(0.06)	(0.02)	(0.08)
Per Share diluted	0.07	0.01	(0.04)	0.00	0.10	(0.06)	(0.02)	(0.08)

**LIQUIDITY, FINANCIAL POSITION AND CAPITAL RESOURCES**

Cash and cash equivalents, marketable securities and investments in shares of public and private companies increased to \$27,676,000 at December 31, 2016, from \$22,715,000 at the end of 2015.

The increase in cash and cash equivalents, marketable securities and investments in shares of public and private companies was mainly due to:

- an increase of \$5,654,000 in the fair value of the Company's investment in SEGL at December 31, 2016;

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 \$651,000 for the 2016 year (\$823,000 for 2015).

Current liabilities were \$36,000 at December 31, 2016, compared to \$33,000 at the end of 2015.

**ANALYSIS OF FINANCIAL CONDITION AND FINANCIAL PERFORMANCE**

The financial condition of the Company at December 31, 2016 and the financial performance in the year ended December 31, 2016 both improved from the prior year mainly as a result of the \$5,654,000 increase in the fair value of the Company's investment in SEGL.

At December 31, 2016, the Company had cash and cash equivalents, marketable securities and investments in shares of public and private companies of \$27,676,000 (December 31, 2015 \$22,715,000) and current liabilities of \$36,000 (December 31, 2015 \$33,000). The deferred tax liability at December 31, 2016 increased to \$1,364,000 (December 31, 2015 \$868,000).

## **ANALYSIS OF FOURTH QUARTER RESULTS**

For the fourth quarter ended December 31, 2016, the Company had investment income of \$10,444,000, which is primarily due to the increase in fair value of the Company's investment in SEGL shares. General and administrative expenses totalled \$186,000 (\$156,000 for the fourth quarter of 2015).

As a result of the foregoing, the Company recorded a net income of \$8,908,000 (\$0.06 per share) for the fourth quarter (\$14,532,000 (\$0.10 per share) for the fourth quarter of 2015).

## **DIRECTORS AND OFFICERS COMPENSATION**

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

<b>Name</b>	<b>Fees earned (\$)</b>	<b>Share-based awards (\$)</b>	<b>Option-based awards (\$)</b>	<b>Non-equity 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 \$30,000 US in the fourth quarter of 2016 as Chairman and Chief Executive officer. Mr. Pennal received \$15,000 in the fourth quarter of 2016 as Vice President. Alex Falconer received \$8,000 US in the fourth 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 year ended December 31, 2016 and 2015 as follows:

## **REMUNERATION OF KEY PERSONNEL**

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Management salaries	\$ 258,544	\$ 260,648
Directors' fees	22,569	22,500
Consulting fees	53,583	-
Total	<u>\$ 334,696</u>	<u>\$ 283,148</u>

Key management personnel are those individuals having authority and responsibility for 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 year, the Company received \$140,000 (2015 \$121,000) in rental payments from SEGL which has a common director. The rental payment was a reimbursement of expenses and has been netted off rent expenses within the general and administrative expenses grouping.

## **REMUNERATION OF KEY PERSONNEL...con't**

During the year, the Company paid \$30,000 (2015 \$38,000) 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 annual 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, 2016.

## **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, 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 December 31, 2016 was \$27,706,000. 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 which 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 law suits, 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 year ended December 31, 2016 and the comparative information presented in the financial statements for the year ended December 31, 2015 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

## **STRATEGY AND FUTURE DIRECTION...con't**

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 32.85% interest in the shares SEGL that are listed and trade on the Catalyst of the Singapore Exchange. On the trading day immediately prior to the date of this MD&A, the shares closed at a price of SGD \$0.146, and the market value of the Company's investment in SEGL was SGD \$22,210,000 (CAD \$19,445,000) or CAD \$0.128 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.

### **SUBSEQUENT EVENT**

Subsequent to year end, the Company disposed of 2,500,000 shares of Spackman Entertainment Group Limited ("SEGL"). As the result of this disposal, the Company's ownership interest of SEGL dropped from 38.77% to 38.15%.

Subsequent to year end, SEGL issued new 64,261,491 ordinary shares to third parties. As a result, the Company's ownership interest of SEGL was diluted from 38.15% to 32.85%.

### **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, 2016 and the date of this MD&A there were 148,900,183 outstanding common shares and options to acquire an additional 8,745,000 common shares.

### **OTHER INFORMATION**

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

May 1, 2016