

# SPACKMAN EQUITIES GROUP

## **Spackman Equities Group Inc.**

### **Management's Discussion and Analysis For the three and six months ended June 30, 2017**

#### **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 six months ended June 30, 2017. It is supplementary information and should be read in conjunction with the Company's consolidated financial statements and accompanying notes for the three and six months ended June 30, 2017 and 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.

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:

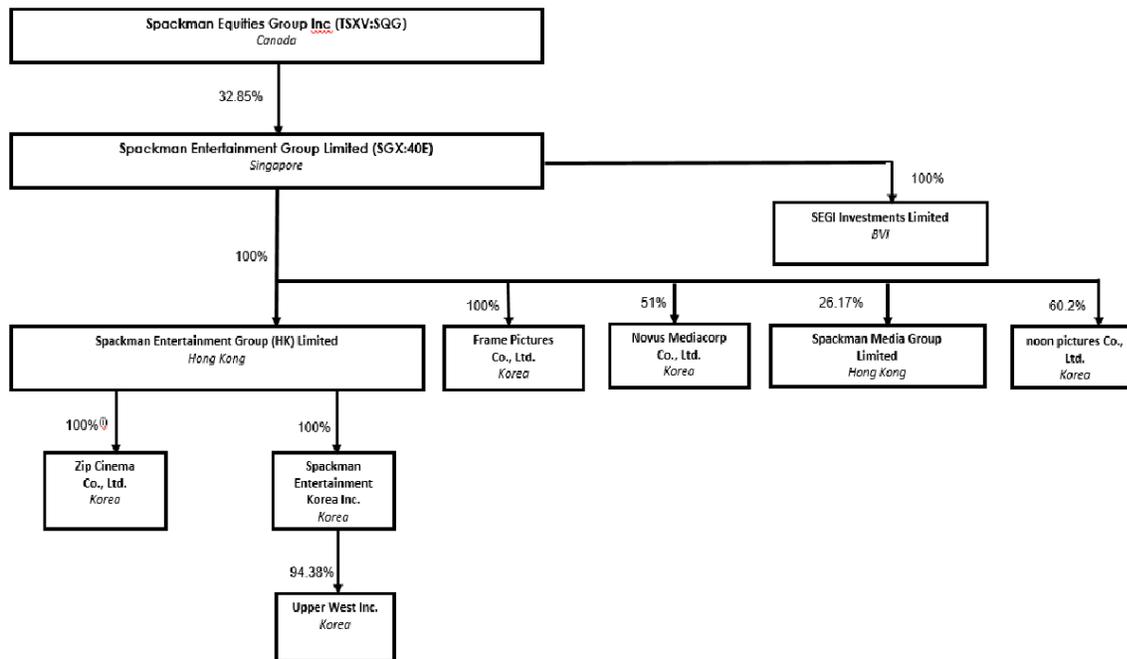
- 32.85% ownership of Singapore-incorporated Spackman Entertainment Group Limited ("SEGL"), which is listed on the Catalist of the Singapore Exchange (ticker: 40E) and is a leading Korean film and entertainment company that wholly-owns Zip Cinema Co., Ltd. and Spackman Entertainment Korea Inc.;
- 100% 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 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 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., UAA & Co., Fiftyone K Inc., SBD Entertainment Inc., and Kook Entertainment Co. Ltd.

On 31 March 2017, SEGL completed the acquisition of 100% equity interest in Frame Pictures Co., Ltd. ("Frame Pictures"), a leader in the movie/drama equipment leasing business in Korea. Established in 2014, Frame Pictures has worked with over 25 top directors and provided the camera and lighting equipment for some of Korea's most notable drama and movie projects including *THE LEGEND OF THE BLUE SEA* (2016) featuring Jeon Ji-hyeon and Lee Min-ho, as well as *VETERAN* (2015), the number one movie at the Korean box office in 2015 starring Yoo Ah-in.

In the first quarter ended March 31, 2017 the Company disposed of 2,500,000 shares of SEGL for proceeds of SGD \$463,550 (CAD \$427,262) and SEGL issued 64,261,491 new ordinary shares to third parties. As a result, the Company's ownership interest of SEGL was decreased to 32.85%.

## **RESULTS OF OPERATIONS**

For the second quarter ended June 30, 2017, the Company had an investment loss of \$4,253,000 compared with an investment loss of \$6,534,000 for the second quarter of 2016. Investment income (loss) for the period is primarily the unrealized gain or loss in 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 was SGD\$0.13 at June 30, 2017 (SGD\$0.19 at December 31, 2016).

General and administrative expenses totalled \$78,000 for the current quarter compared with \$146,000 for the second quarter of 2016. The decrease was mainly the result of a decrease in rental expense and wages and salaries for the Hong Kong office to minimize the expense of the Company.

As a result of the foregoing, the Company recorded a net loss and comprehensive loss of \$3,208,000 (\$0.02 per share) for the current quarter compared with a net loss and comprehensive loss of \$5,821,000 (\$0.04 per share) for the second quarter of 2016.

## **SUMMARY OF SELECTED QUARTERLY INFORMATION**

	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Investment Income								
Gain (loss), realized and unrealized,	(4,252,818)	(4,232,685)	10,444,117	1,749,925	(6,538,239)	(11,027)	15,645,712	(9,653,950)
Other income	nil	199	nil	nil	2	194	12,124	13,599
Net Income (Loss)								
Total	(3,208,029)	(3,223,316)	8,907,562	1,590,446	(5,820,803)	(205,264)	14,531,669	(9,653,950)
Per Share	(0.02)	(0.02)	0.06	0.01	(0.04)	0.00	0.10	(0.06)
Per Share diluted	(0.02)	(0.02)	0.07	0.01	(0.04)	0.00	0.10	(0.06)

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

Cash and cash equivalents, marketable securities and investments in shares of public decreased to \$18,879,000 at June 30, 2017, from \$27,676,000 at the end of 2016 and \$15,814,000 at June 30, 2016.

The fair value of the Company's investment in SEGL (ticker 40E) on the Catalist of the Singapore Exchange at December 31, 2016 was \$27,553,000 and at June 30, 2017 was \$18,640,000.

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 payment of operating expenses of \$78,000 and the decrease in the market value of investments in shares of public companies.

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 \$78,000 for the current quarter, \$651,000 for the 2016 year and \$146,000 for the second quarter of 2016.

Current liabilities were \$30,000 at June 30, 2017, compared to \$36,000 at the end of 2016 and \$40,000 at June 30, 2016.

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

The financial condition of the Company at June 30, 2017 and the financial performance in the current quarter reflect, and are primarily the result of, the unrealized gain or loss in the fair value of the Company's investment in SEGL (ticker 40E) on the Catalist of the Singapore Exchange.

At June 30, 2017, the Company had cash and cash equivalents, marketable securities and investments in shares of public companies of \$18,879,000 (December 31, 2016 - \$27,676,000 and June 30, 2016 - \$15,814,000) and current liabilities of \$30,000 (December 31, 2016 - \$36,000 and June 30, 2016 - \$20,000).

## **DIRECTORS AND OFFICERS COMPENSATION**

The following table sets out all compensation paid to directors of the Corporation for their services as directors in the second quarter of 2017.

<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 Babcock	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 second quarter of 2017 as Chairman and Chief Executive Officer. Mr. Pennal received \$15,000 in the second quarter of 2017 as Vice President. Alex Falconer received US \$8,000 in the second quarter of 2017 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 June 30, 2017 and 2016 as follows:

### **REMUNERATION OF KEY PERSONNEL**

	<b>Three Months June 30,</b>		<b>Six Months June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Management salaries	\$ 61,567	\$ 62,392	\$ 177,745	\$ 131,467
Directors' fees	-	-	22,569	-
<b>Total</b>	<b>\$ 61,567</b>	<b>\$ 62,392</b>	<b>\$ 200,314</b>	<b>\$ 131,467</b>

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 three month period ended June 30, 2017, the Company received \$36,752 (June 30, 2016 - \$35,092) in rental payments from SEGL that has a common director.

During the three month period ended June 30, 2017, the Company paid \$nil (June 30, 2016 - \$9,664) in consulting fees to an officer of SEGL that has a common director.

Included in prepaid expenses are salaries of \$106,955 (December 31, 2016 - \$Nil) paid to the CEO of the Company

### **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 amount of 15% of the investment proceeds from the disposition of the Company's investments. In the first quarter of 2017 the CEO was paid \$53,017 representing 15% of the profit of \$353,447 made by the Corporation on the sale of 2,500,000 shares of SEGL in the 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, 2016.

### **EVENTS AFTER QUARTER END**

After quarter end, the Company borrowed USD \$400,000 from an unrelated third party, on an unsecured basis for a term of one (1) year at an interest rate of 5% per annum and immediately thereafter the Company purchased 130,000 common voting shares of Spackman Media Group Limited (SMGL) for USD \$390,000, or USD \$3.00 per share, from an unrelated substantial shareholder of SMGL.

### **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 June 30, 2017 was \$18,871,000. 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 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 three and six months ended June 30, 2017 and the year ended December 31, 2016 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 32.85% 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 SGD \$0.125, and the market value of the Company's investment in SEGL is SGD \$19,015,000 (CAD \$20,661,222) or CAD \$0.139 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, 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).

August 25, 2017