

# SPACKMAN EQUITIES GROUP

## Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") provides additional analysis of the operations and financial position of Spackman Equities Group Inc. ("SEGI" or the "Company"). It is supplementary information and should be read in conjunction with the Company's financial statements and accompanying notes for the three and six month periods ended June 30, 2014, and for the year ended December 31, 2013.

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:

- 39.1% ownership of Singapore-incorporated Spackman Entertainment Group Limited, 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., Opus Pictures Limited Liability Company, and Spackman Entertainment Korea Inc.;
- 100% of SEGI Investments Limited, an investment company that invests into public equities; and
- marketable securities.

### **FORWARD-LOOKING STATEMENTS**

Included in this MD&A are matters 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.

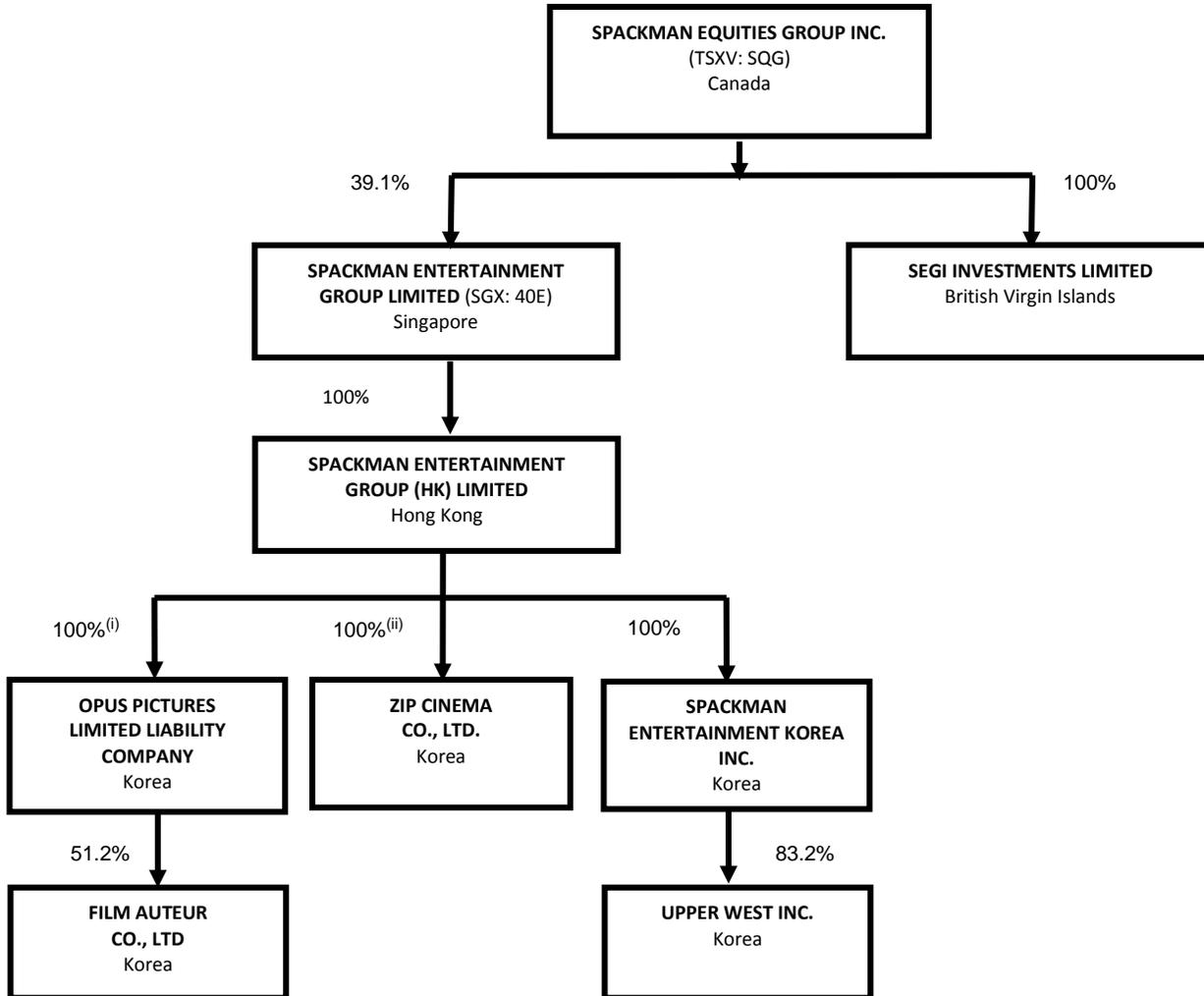
### **HIGHLIGHTS OF SECOND QUARTER 2014 AND SUBSEQUENT EVENTS**

- On April 17, 2014, the Company purchased 19,500 common shares, or 19.5%, of Pravala (Asia) Limited, an early stage Hong Kong company that is the exclusive Asia distributor of the mobile solutions of Waterloo-based Pravala Networks Inc., for a purchase consideration of CAD \$150,000 in cash.

- On May 13, 2014, UAA Korea Co., Ltd. ("UAA") repaid USD 1,019,159 (CAD \$1,109,146) of convertible notes issued on January 17, 2014, with all accrued interest to the Company.
- On June 12, 2014, all shareholders of Spackman Entertainment Group Limited ("SEGHK"), including the Company, exchanged all of their shares of SEGHK for a corresponding number of new shares of Spackman Entertainment Group Pte. Ltd., a Singapore entity formed for the purpose of listing, as part of the restructuring exercise for the initial public offering in Singapore, resulting in SEGHK becoming a wholly-owned subsidiary of Spackman Entertainment Group Pte. Ltd. Prior to this share exchange, on April 25, 2014, SEGHK converted all its outstanding convertible notes in the amount of CAD \$1,385,421 (USD 1,500,000) at the conversion price of USD 1,000 resulting in the issuance of 1,500 new common shares of SEGHK, and SEGHK closed another round of pre-IPO financing by raising a total of USD 4,596,288 (CAD \$5,068,786) by way of a private placement to three investors by issuing 1,776 common shares at USD 2,588 per share which is equivalent to a pre-money valuation for SEGL of USD 40 million (CAD \$44.1 million).
- On June 19, 2014, each of the Spackman Entertainment Group Pte. Ltd. shares was subdivided into 20,000 shares, and the outstanding issued shares increased to 344,540,000.
- On June 24, 2014, Spackman Entertainment Group Pte. Ltd. changed its name to "Spackman Entertainment Group Limited" ("SEGL") as required by Singaporean regulations governing the conversion of a private company into a public company.
- On June 24, 2014, the Company appointed Alex Falconer as Chief Financial Officer. Mr. Falconer succeeds Kyoungwon Na who continues to serve as the Chief Financial Officer of SEGL. This restructuring of management was undertaken in advance of the planned listing of SEGL on the Catalist of the Singapore Exchange to avoid any potential conflicts of interest between the Company and SEGL.
- On July 3, 2014, SEGHK changed its name to "Spackman Entertainment Group (HK) Limited" in order to avoid confusion with SEGL, its parent company.
- On July 11, 2014, SEGL registered its Offer Document and launched its initial public offering ("IPO") in Singapore.
- On July 14, 2014, the Company announced that Anthony Wei Kit Wong, who was elected a director of the Company at the Annual General Meeting held June 12, 2014, and who is also a director of SEGL, had decided not to serve on the board of the Company to avoid any potential conflicts of interest between the Company and SEGL. The Company intends to appoint a new independent director in the near future.
- On July 18, 2014, the IPO placement was fully placed and closed, and SEGL sold 69,440,000 shares, comprised of 50,000,000 new shares and 19,440,000 existing shares at SGD \$0.26 (CAD \$0.22) per share, raising gross proceeds of SGD 18.1 million (CAD \$15.8 million).
- On July 22, 2014, the shares of SEGL commenced trading on the Catalist of the Singapore Exchange under the symbol "40E". As of the date of the MD&A, the Company owns 154,620,000 shares or 39.1% of SEGL. Based on the closing price of August 29, 2014, of SGD 0.40 (CAD \$0.35), the market value of the Company's stake in SEGL is SGD \$61.8 million (CAD \$53.8 million) or CAD \$0.36 per SEGI share.
- On July 30, 2014, the Company granted stock options to five directors of the Company to acquire up to an aggregate of 8,745,000 common shares of SEGI under the Company's stock option plan. The stock options are exercisable at a price of \$0.135 per share and expire five years from the date of grant or earlier in accordance with the Plan.

**STRUCTURE AND HOLDINGS**

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



- (i) SEGHK owns 93% of Opus Pictures directly, and the remaining 7% through its wholly-owned subsidiary Spackman Equities Limited. As a result, SEGL’s ultimate beneficial ownership of Opus Pictures is 100%.
- (ii) SEGHK owns 92.996% of Zip Cinema directly, and the remaining 7.004% through its wholly-owned subsidiary Spackman Equities Limited. As a result, SEGL’s ultimate beneficial ownership of Zip Cinema is 100%.

## **Spackman Entertainment Group Limited**

Spackman Entertainment Group Limited is a leading entertainment production company that is primarily engaged in the independent development, production, and financing of theatrical motion pictures in Asia, primarily in Korea. SEGL is listed on the Catalist of the Singapore Exchange under the ticker 40E (Bloomberg: SEG SP Equity).

SEGL's two motion picture production subsidiaries, namely, Zip Cinema Co., Ltd. ("Zip" or "Zip Cinema") and Opus Pictures Limited Liability Company ("Opus" or "Opus Pictures"), are two of the most recognized film production labels in Korea, and have originated and produced some of Korea's most commercially successful theatrical films for the past seven years. 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 television, broadcast television, IPTV, video-on-demand, and home video/DVD, etc. All of the motion pictures are released into wide-theatrical exhibition initially in Korea, and then in overseas and ancillary markets.

Zip and Opus have produced and released a total of 16 theatrical motion pictures since 2007, the majority of which were profitable and some were among the top grossing films in Korea in recent years. Recent theatrical releases of our motion pictures include some of Korea's highest grossing and award-winning films such as *SNOWPIERCER* (2013-2014), *COLD EYES* (2013), and *ALL ABOUT MY WIFE* (2012).

## **Opus Pictures**

Opus Pictures Limited Liability Company was established on August 12, 2005, in the Republic of Korea by renowned movie producer, Tae Hun Lee. Opus is recognized as one of the leading independent developers, producers, and investors of theatrical motion pictures in Korea. Since its inaugural production of *A FROZEN FLOWER* in 2008, which sold over 3.7 million tickets domestically and grossed KRW 25.4 billion (CAD \$25.6 million), Opus has produced and released a total of eight theatrical films to date, including *THE MAN FROM NOWHERE*, the biggest box office success of the year with 6.2 million box office tickets sold domestically and a gross of over KRW 47.1 billion (CAD \$47.5 million) which makes it one of the highest grossing movies in Korean movie history.

On July 31, 2013, *SNOWPIERCER*, the critically acclaimed sci-fi action film produced by Opus, opened #1 at the Korean box office, breaking the record for the best non-holiday opening ever and the fastest film to reach 4 million ticket admissions in Korean history. With a production budget of about USD 40 million (CAD \$42 million), *SNOWPIERCER* eventually sold over 9.3 million tickets and grossed over KRW 67 billion (CAD \$67.6 million) at the Korean box office, placing the film as the # 2 box office hit in Korea in 2013 in terms of ticket admissions. *SNOWPIERCER* has been sold in over 100 countries. On June 27, 2014, *SNOWPIERCER* was released in the United States, distributed by Radius-TWC, subsidiary of the Weinstein Company. Radius-TWC used a multi-platform strategy of releasing the movie on-demand just two weeks after theatre release. As of August 24, 2014, *SNOWPIERCER* has grossed USD 4.4 million (CAD \$3.9 million) in theaters and USD 6.0 million (CAD \$5.3 million) from VOD (video on demand).

Opus's production capabilities consist of the originating and financing of motion pictures, as well as the development of the screenplay and the actual filming activities and post-filming editing/post-production process. Opus works in cooperation with Korea's major distribution companies for the release of its films and, at times, participates in its productions as an investor. Opus also opportunistically acquires distribution rights to motion pictures produced by third parties for distribution in theatrical, video and television markets in Korea. Opus licenses its films to ancillary markets including IPTV, digital cable, broadcast television and home video/DVD. Its movies are shown throughout Asia and worldwide.

Opus has a number of films scheduled for release in 2014 that it has produced and/or financed and/or of which it will be the distributor. *FOR THE EMPEROR*, a crime and action movie produced and financed by Opus with a budget of approximately KRW 4.8 billion (CAD \$4.8 million) was released on June 11, 2014. *CONFESSION*, a crime drama produced and financed by Opus with a budget of approximately KRW 5.2 billion (CAD \$5.2 million) was released on July 9, 2014. *BIG MATCH*, a fighting and action

movie with a budget of approximately KRW 8 billion (CAD \$8.1 million) will open in December 2014 with financing from Opus. Opus will act as a distributor for two movies: 1) *ANOTHER MAN'S LIFE*, a drama, and 2) *RAZE*, an action and horror movie. Opus is also developing a number of films for release in 2015 and 2016.

Opus is wholly-owned by SEGL. Opus' principal office is located at 3F, Proom Building, 82 Nonhyun-Dong, Gangnam-Gu, Seoul, Korea 135-818. [www.opuspictures.com](http://www.opuspictures.com)

## **Zip Cinema**

Zip Cinema Co., Ltd. is a Korean movie production firm founded by veteran film producer Eugene Lee, who was named in 2007 as one of the world's "10 Producers to Watch" by Variety, the leading Hollywood journal. The company was incorporated on December 23, 2005, in the Republic of Korea. Zip engages in the development and production of theatrical motion pictures with a strong commitment to bringing original content to moviegoers from the most innovative Korean filmmakers. Since its establishment, Zip has achieved notable critical and box office success with such hits as *WOOCHI* (2009) with 6.1 million tickets sold at the Korean box office and grossing over KRW 44 billion (CAD \$44.4 million), and *HAUNTERS* (2010) which sold over 2.1 million tickets in Korea and grossed KRW 15.4 billion (CAD \$15.5 million). *ALL ABOUT MY WIFE*, a romantic comedy produced by Zip, opened in Korean theatres in May 2012, and sold over 4.6 million tickets and grossed over KRW 34.2 billion (CAD \$34.5 million), becoming one of Korea's highest-grossing romantic comedies of all time. In July 2013, *COLD EYES*, a crime thriller produced by Zip, opened #1 at the Korean box office. *COLD EYES* had a total budget of approximately KRW 6.7 billion (CAD \$6.8 million), it sold over 5.5 million tickets and grossed KRW 40 billion (CAD 40.3 million) placing it as one of the top 10 box office hits of 2013. *COLD EYES* was also selected as the Gala Presentation for the Toronto International Film Festival 2013.

Zip is the producer of *MY BRILLIANT LIFE*, a drama with a production budget of KRW 5.9 billion (CAD \$6.0 million) scheduled for release on 3 September 2014, *WOOCHI 2*, a sequel fantasy action film with a production budget of KRW 15 billion (CAD\$ \$15.1 million) scheduled for release in 2015, and *GOLDEN SUMMER*, an action thriller with a production budget of KRW 15 billion (CAD \$15.1 million) that is also scheduled for release in 2015.

Zip is wholly-owned by SEGL. The office of Zip is located at 3F, Proom Building, 82 Nonhyun-Dong, Gangnam-Gu, Seoul, Korea 135-818. [www.zipcine.com](http://www.zipcine.com)

## **RESULTS OF OPERATIONS**

For the second quarter ended June 30, 2014 (the "current quarter"), the Company had revenue of \$6,952,178 compared with revenue of \$2,137,193 for the second quarter of 2013. Revenue for the current quarter is primarily the film production and distribution revenues of Opus and Zip which were \$6,785,610 as well as revenues of \$25,100 from the investment trading of public equities and other income of \$141,468.

General and administrative expenses totalled \$724,075 for the current quarter compared with \$513,667 for the second quarter of 2013. The increase was mainly the result of rising general and administrative expenses from the Opus and Zip businesses. In addition for the current quarter the Company had direct production costs of \$6,181,786 (\$1,534,952 for the second quarter of 2013) and selling expenses of \$908,376 compared with \$271,579 for the second quarter of 2013. The increase is mainly due to the expenses associated with three films that are being produced by SEGI's subsidiaries, Zip and Opus.

As a result of the foregoing, the Company recorded a net loss of \$893,622 (\$0.006 per share) for the current quarter compared with a net loss of \$392,114 (\$0.002 per share) for the second quarter of 2013.

The net comprehensive loss for the current quarter was \$210,206 (\$0.001 per share) after including a foreign exchange gain of \$683,416 compared with a net comprehensive loss of \$316,075 (\$0.002) for the second quarter of 2013.

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

(In Canadian Dollars)

	Quarter June 30 2014	to March 31 2014	Quarter to December 31 2013	Quarter to September 30 2013	Quarter to June 30 2013	Quarter to March 31 2013	Quarter to December 31 2012	Quarter to September 30 2012
Revenue								
Film production and distribution	6,785,610	2,804,733	3,825,136	5,964,192	1,888,952	124,052	905,307	1,179,747
Other income	141,468	239,329	467,305	178,068	224,859	178,435	489,623	51,119
Gain (loss), realized and unrealized, on value of marketable securities	25,100	21,251	(51,980)	(1,105)	3,382	123,128	985,644	31,561
Net profit (Loss)								
Total	(893,622)	(744,444)	722,365	2,557,631	(392,114)	(1,011,127)	(1,206,685)	70,475
Per share	(0.006)	(0.005)	0.005	0.017	(0.002)	(0.007)	(0.017)	0.00
Per share (diluted)	(0.006)	(0.005)	0.005	0.017	(0.002)	(0.007)	(0.017)	0.00
<i>Other Comprehensive Income (Loss), being increase (decrease) in foreign exchange translation</i>	683,416	(25)	929,424	229,160	76,039	(19,639)	31,299	(82,981)
Comprehensive Income (Loss)	(210,206)	(744,469)	1,651,789	2,786,791	(316,075)	(1,030,766)	(1,175,386)	(12,506)

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

Working capital at June 30, 2014 was \$(1,791,594) compared with \$702,029 at December 31, 2013 and \$(4,466,852) at the end of the second quarter of 2013. The decrease is mainly due to the expenses associated with three films that are being produced by SEGI's subsidiaries, Zip and Opus.

Current liabilities were \$18,650,401 at June 30, 2014, compared with \$16,501,484 at December 31, 2013 and \$10,690,563 at the end of the second quarter of 2013.

Cash, cash equivalents and marketable securities decreased to \$9,647,456 at June 30, 2014 from \$14,730,535 at the end of 2013 mainly due to the expenses associated with three films that are being produced by SEGI's subsidiaries, Zip and Opus.

The Company's capital resources consist of cash, 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 \$724,075 for the second quarter of 2014, \$1,956,577 for the 2013 year and \$513,667 for the second quarter of 2013.

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

With respect to the financial condition of the Company, at the end of the second quarter of 2014 the Company had cash, cash equivalents and marketable securities of \$9,647,456 (December 31, 2013 \$14,730,535 and June 30, 2013 \$4,947,306) and total liabilities, current and long-term, of \$18,793,554 (December 31, 2013 \$18,028,770 and June 30, 2013 \$10,690,563). The decrease in cash, cash equivalents and marketable securities since December 31, 2013 is mainly due to the increase in expenses in the first six months of 2014 associated with three films that are being produced by the Company's subsidiaries, ZIP and Opus, which was offset by proceeds of \$4,660,660 from the sale of shares of SEGL preceding the listing on the Catalist of the Singapore Exchange.

## ***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 2014.

<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>
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 is entitled to receive USD 120,000 annually as Chairman and Chief Executive Officer under his employment contract with the Company. Mr. Spackman received USD 30,000 in the second quarter of 2014 as Chairman and Chief Executive officer. Mr. Spackman is also entitled under his employment contract (i) to receive 15% of any investment proceeds in excess of the initial costs of such investment resulting from the disposition of any current or future venture investment and (ii) to be issued options to purchase up to 5% of the outstanding shares of the Company. Options to purchase 7,445,000 shares of the Company exercisable at \$0.135 per share for five (5) years were issued to Mr. Spackman by the Company on July 30, 2014. Mr. Spackman also received a bonus from the Company of \$250,000 in July 2014 following the listing of SEGL on the Catalist of the Singapore Exchange in recognition of his efforts in the successful listing and placement by the Company's subsidiary and the increase in the value which has been created for shareholders of the Company.

Mr. Pennal received \$15,000 in the second quarter of 2014 as Vice President and options to purchase 450,000 shares of the Company exercisable at \$0.135 per share for five (5) years were issued to Mr. Pennal by the Company on July 30, 2014.

Kyoungwon Na received \$7,998 in the second quarter of 2014 as Chief Financial Officer.

On July 30, 2014 options to purchase a total of 850,000 shares of the Company exercisable at \$0.135 per share for five (5) years were issued to three directors other than Mr. Spackman and Mr. Pennal.

## ***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**

Revenues from the film production businesses owned by the Company are very unpredictable and the Company may experience negative cash flow from operating activities. If that is the case, the Company will have to fund its operations with its cash on hand, cash equivalents and marketable securities. The Company's cash on hand, cash equivalents and marketable securities at June 30, 2014 was \$9,647,456. 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 may 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.

Opus, Zip, Film Auteur, Spackman Entertainment Korea Inc., and Upper West Inc. are all at a relatively early stage of development and will likely require additional funding to continue operations or to develop their business plans until they become self-funding. The Company and SEGL would have to use its cash, cash equivalents and marketable securities to provide any such additional funding.

### **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 the film production business in Korea - 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 Opus and Zip, their businesses are very dependent on the strength of the Korean film industry and their 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**

Opus and Zip 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. In the case of Opus and Zip, 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, 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 under the symbol "SQG", 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 majority of the Company's operations and assets are located in the Republic of Korea through its ownership of Opus, Zip which are based in Korea and Upper West Inc. which operates a café and lounge in Seoul, 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 to a large extent.

### **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 second quarter ended June 30, 2014 and for the year ended December 31, 2013 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 strategy and focus is to (i) identify and acquire small/medium-sized growth companies, primarily in the Asia, 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.

On July 22, 2014, SEGI listed the shares of its subsidiary SEGL on the Catalist of the Singapore Exchange, and SEGL completed an equity financing. The listing and the financing will enhance the ability of SEGL and its wholly owned subsidiaries, Opus and Zip, to continue to develop and to grow their businesses. Based on the IPO offering price of SGD \$0.26 (CAD \$0.22) per share, the Company's investment in SEGL had a market value of SGD \$40.2 million (CAD \$34.5 million). Since the date of the IPO the shares of SEGL have traded well above the IPO price, and on August 29, 2014, the shares closed at a price of SGD \$0.40 (CAD \$0.35), which implies a market value for the Company's stake in SEGL of SGD \$61.8 million (CAD \$53.8 million) or CAD \$0.36 per SEGI share. The Company is examining ways in which to enhance and unlock the value of its investment in SEGL for the benefit of the Company's shareholders and to reduce or eliminate the discount at which the Company's shares trade on the TSXV relative to the price implied by the Singapore listing.

Moving forward SEGI will continue to work with the management of SEGL to enhance the value of their businesses.

SEGI understands that the management of SEGL has a deeper understanding and knowledge of the specific business and sector in which it operates. Therefore, SEGI plans to actively work with the management of SEGL to identify particular areas in which the SEGI management can help enhance value. Such areas include:

(1) *Financing Alternatives.* SEGI will provide guidance and support to SEGL in areas such as corporate finance, mergers, acquisitions, divestitures, capital markets, financial reporting, accounting and treasury operations.

(2) *Strategic Guidance.* SEGI will provide strategic guidance to SEGL regarding market positioning, business model development and market trends.

(3) *Cross-Border Expansion.* SEGI believes that the multinational business experience of the SEGI management will help SEGL expand their businesses into new markets geographically. The SEGI management will provide regulatory, financial, and operational support in new local markets.

(4) *Business Relationships.* SEGI will provide new business relationships to SEGL throughout various parts of the world, which may result in potential business opportunities, strategic alliances/partnerships, joint marketing efforts, acquisitions, and other transactions.

(5) *Executive Recruiting and Human Resources.* SEGI will assist SEGL in recruiting key executive talent by leveraging the network of contacts of the SEGI management.

SEGI will 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.

## ***OUTSTANDING SHARE DATA***

The Company has authorized an unlimited number of common shares and an unlimited number of preference shares issuable in series. At June 30, 2014, there were outstanding 148,900,183 common shares and options to acquire an additional 836,000 common shares. At the date of this MD&A, there were outstanding 148,900,183 common shares and options to acquire an additional 9,581,000 common shares.

## ***OTHER INFORMATION***

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

August 29, 2014