

# 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 year ended December 31, 2012.

SEGI is a publicly-traded company listed on the TSX Venture Exchange under the symbol "SQG". Prior to October 31, 2011 the Company's name was Centiva Capital Inc. ("Centiva"). Centiva was listed on the TSX Venture Exchange under the symbol "CVC".

On September 30, 2011, a plan of arrangement (the "Arrangement") was completed pursuant to Section 192 of the Canada Business Corporations Act, whereby Centiva and a wholly-owned subsidiary of Centiva, Aylen Capital Inc. ("Aylen") entered into an agreement to distribute the existing assets of Centiva to shareholders by way of the Arrangement. Under the terms of the Arrangement, all of the existing assets and liabilities of Centiva were transferred to Aylen in exchange for shares of Aylen and a \$842,832 promissory note. The Arrangement was approved by Centiva shareholders at a special meeting held on September 23, 2011 and by the Superior Court of Justice on September 27, 2011. The effective date of the transfer was October 31, 2011. On the same date Centiva changed its name to Spackman Equities Group Inc.

Centiva transferred all of its then existing assets and liabilities, other than those relating to the new equity and tax losses, to Aylen in exchange for common shares of Aylen. The assets which were transferred to Aylen from Centiva consisted of cash, an equity interest in a technology-based company, VFM Leonardo Inc., a technology-based business, Grapevine Solutions, and a portfolio of marketable securities.

Additional information concerning the Arrangement may be found under the heading "The Arrangement".

### **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.

### **THE ARRANGEMENT**

The following summary of the principal terms of the Arrangement is provided for the benefit of the reader and is qualified in its entirety by reference to the Plan of Arrangement which can be assessed under the Company's profile at [www.sedar.com](http://www.sedar.com).

In late 2010, an opportunity was presented to the Company to raise new equity from a group of investors interested in investing in small/medium-sized businesses with growth potential in Asia, principally in the Republic of Korea. After due consideration, the Board approved this new strategy and decided to retain Charles Spackman as the new Chief Executive Officer of the Company with a mandate to broaden and refocus the investment scope of the Company to Asia (mainly Korea). Prior to the completion of the Arrangement, and conditional upon the completion of the Financing as defined below, the Company entered into agreements for two investments.

After negotiations with the group of investors, the Board concluded that the assets of the Company were of limited interest to the investors and that they were not prepared to fully recognize their value. Therefore, it was determined by the Board to spin the existing assets out to Shareholders by way of a Plan of Arrangement and to proceed with the new investment and strategy. The Arrangement was governed by the Arrangement Agreement entered into between the Company and Aylene on June 30, 2011.

Upon completion of the Arrangement, Aylene, which was incorporated as a subsidiary of Centiva, continued to carry on the business which was previously conducted by the Company up to October 31, 2011, and the business of the Company since October 31, 2011 has been 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.

The Corporation created a wholly-owned subsidiary, Aylene, for the purposes of the Arrangement. As part of the Arrangement, all of the existing assets and liabilities of the Company, other than the tax losses, were transferred to Aylene in exchange for shares of Aylene and a promissory note in an amount of \$842,832 which represented \$0.05 per each issued and outstanding common share of the Company immediately prior to the Arrangement and the completion of the Financing. The promissory note is repayable (in full or in part) by Aylene upon disposition of the assets transferred to it by Centiva and is secured against the assets of Aylene's Grapevine Solutions division. The stated capital of the Company's Common Shares has been reduced by an amount equal to the fair market value of the Company's assets less its liabilities on the date such assets and liabilities are transferred to Aylene. The Company has distributed on a pro-rata basis, to each Shareholder, all the shares of Aylene. Certificates for such shares have been withheld pending the attaining of "reporting issuer" status by Aylene.

## **HIGHLIGHTS OF 2012**

- In the first quarter of 2012, the Company purchased 55% of Team Vision International Limited which owned approximately 93% of each of Opus Pictures Co., Ltd. ("Opus") and Zip Cinema Co., Ltd. ("Zip"). Opus and Zip are independent Korean based motion picture production companies. Team Vision International Limited subsequently changed its name to Spackman Entertainment Group Limited.
- In the fourth quarter of 2012, the Company increased its ownership in Spackman Entertainment Group Limited from 55% to 65.8% through the purchase of shares of Spackman Entertainment Group Limited from an arm's length third party for \$897,642. As a result, the Company now owns indirectly approximately 68.2% of each of Opus and Zip - 61.19% through its ownership of Spackman Entertainment Group Limited and 7% through its wholly-owned subsidiary, Spackman Equities Limited.
- During the year, the Company determined that the ownership of a minority stake in Intech LCD Group Inc. no longer fit its investment strategy and consequently sold its 17.92% shares of Intech LCD Group Inc. back to the original owner in the fourth quarter of 2012 at a price equal to the Company's acquisition cost of the shares.
- In the second quarter of 2012, Zip released "ALL ABOUT MY WIFE", a romantic comedy, which quickly became the top box office film in Korea. The film has sold over 4.6 million tickets in Korea, becoming Korea's highest-grossing romantic comedy of all time.
- A private placement of common shares of the Company was completed in the second quarter of 2012 for gross proceeds of \$4.35 million that further strengthened the Company's cash and financial position. At December 31, 2012 the Company had cash, cash equivalents and marketable securities of \$6,744,000.
- In the third quarter of 2012, the Company established a wholly-owned subsidiary in Korea by the name of Spackman Entertainment Korea Inc. to invest into the slate of films to be produced by Opus and Zip. The Company capitalized Spackman Entertainment Inc. with Korean Won 990,000,000 (approximately \$880,000). Also in the third quarter the Company advanced US \$275,000 to Spackman Entertainment Korea Inc. to enable it to acquire a 67% interest in Upper West Inc., which was incorporated on September 28, 2012, in Korea and is the operator of the Martini Kitchen, an entertainment café and lounge located in Seoul, Korea.
- In the third quarter of 2012, the Company established a wholly-owned investment company in the British Virgin Islands by the name of SEGI Investments Limited ("SIL") and capitalized it with \$500,000. SIL intends to seek mid-to-long term capital appreciation by investing in a concentrated portfolio of equity securities of publicly traded Korean small capitalization companies.
- In the fourth quarter of 2012, the Company and SIL, collectively, accumulated a stake of more than 5% of Cheongbo Industrial Co., Ltd., a Korean auto-parts manufacturer listed in the KOSDAQ in Korea. At December 31, 2012 this investment held for trading had a collective realized gain of \$409,000 and an unrealized gain of \$106,000.
- The Company reported positive cash flow and positive net income for the first time during the three and nine months ended September 30, 2012. For the third quarter, revenue was \$1.2 million and net income was \$70,000 or \$0.0004 per share. The increase in revenue and net income was primarily attributable to the commercial success of the film "ALL ABOUT MY WIFE".
- Revenue for the 2012 year improved to \$6,234,000 from \$53,000 in 2011, mainly as a result of the revenue generated by the film "ALL ABOUT MY WIFE", and the Company recorded a net loss of \$914,000 for the year (compared with a net loss of \$608,000 for 2011).

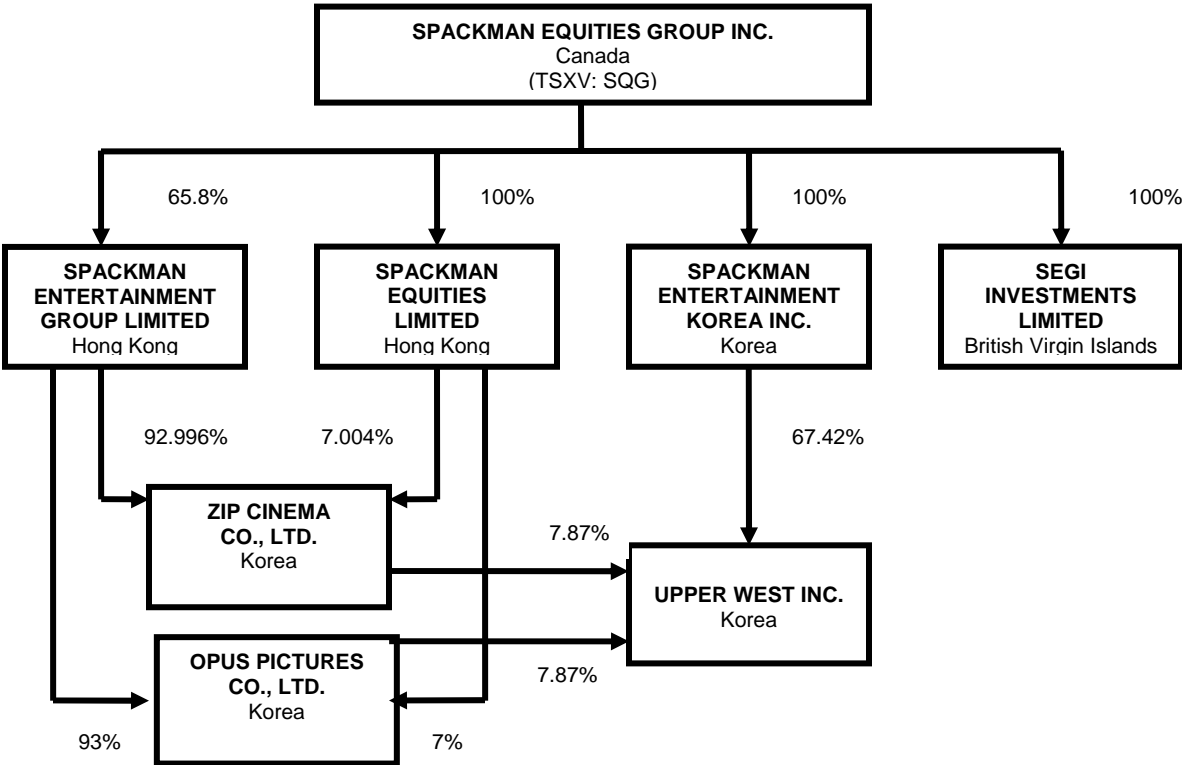
## ***TRANSACTIONS IN 2012***

The following is a summary of the significant transactions in which the Company was involved in 2012:

1. On January 10, 2012, the Company purchased 5,500 shares, or 55% of Team Vision International Limited (now Spackman Entertainment Group Limited) in exchange for the issuance of 30,475,000 common shares of the Company at a deemed price of \$0.11 per share.
2. On February 1, 2012, the Company advanced US \$200,000 to Opus and received from Opus a promissory note in the amount of US \$200,000, due February 1, 2014 with interest at 8% per annum.
3. On May 3, 2012, the Company engaged the firm of Lerner Griffin & Peltz Ltd. to assist in a private placement of common shares in exchange for a fee equal to 5% of any proceeds raised.
4. On May 25, 2012, a private placement of 39,545,451 common shares of the Company at \$0.11 per share was completed with six arm's length purchasers for gross proceeds of \$4.35 million.
5. On September 12, 2012, the Company advanced US \$275,000 to its wholly-owned subsidiary, Spackman Entertainment Korea Inc., and received from Spackman Entertainment Korea Inc. a promissory note in the amount of US \$275,000, due September 11, 2014 with interest at 8%. The purpose of the loan was to enable Spackman Entertainment Korea Inc. to acquire a 67% interest in Upper West Inc., which was incorporated on September 28, 2012, in Korea and is the operator of the Martini Kitchen ("MK"), an entertainment café and lounge located in Seoul, Korea.
6. On October 31, 2012, the Company entered into a tenancy agreement with Shinning Pacific Limited for a three-year lease of office space in Hong Kong commencing November 16, 2012, for a monthly rental of HK \$101,745 and a monthly management fee of HK \$14,635.
7. On December 18, 2012, the Company increased its ownership in Spackman Entertainment Group Limited from 55% to 65.8% by purchasing 1,080 shares of Spackman Entertainment Group Limited from an arm's length party for a purchase price of \$897,642, which was paid in cash.
8. On December 19, 2012, the Company sold back to Trinity Capital Advisors Ltd. its shares of Intech LCD Group Limited for a consideration of \$1,075,000 consisting of \$775,000 in cash and a promissory note from Trinity Capital Advisors Ltd. of \$300,000, due December 19, 2014 with interest at 6% per annum.

**STRUCTURE AND HOLDINGS**

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



**Opus Pictures**

Opus Pictures Co., Ltd. (“Opus”) 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 developer, producer, and investor of theatrical motion pictures in Korea. In 2010, Opus produced and released *THE MAN FROM NOWHERE*, the biggest box office success of the year with 6.9 million box office tickets sold domestically and one of the highest grossing movies in Korean movie history. Opus licenses its films to ancillary markets including cable, broadcast television, and home video/DVD. Its movies are distributed and shown throughout Asia.

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.

Currently, Opus is co-producing a major Hollywood film titled *SNOWPIERCER*, a sci-fi action movie with a budget of USD 50 million, and starring Chris Evans (*CAPTAIN AMERICA*), Ed Harris (*MAN ON THE LEDGE*), John Hurt (*HARRY POTTER* Series) as well as Academy Award winner Octavia Spencer. The director is Bong Joon-Ho, one of the most celebrated Korean film directors. Opus will be one of the first Korean movie production companies to produce a Hollywood production of this magnitude.

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)

### **Management of Opus**

Mr. Tae Hun Lee is the Founder, Chief Executive Officer and Chief Producer of Opus Pictures. Mr. Lee has produced some of Korea's major international award-winning films such as *SYMPATHY FOR LADY VENGEANCE* (2005), which is currently being remade by Universal Pictures for the U.S. market, and *I AM A CYBORG, BUT THAT'S OK* (2006). After founding Opus, Mr. Lee produced *A FROZEN FLOWER* in 2008, a highly acclaimed and controversial epic melodrama set in the Koryo Dynasty, and *THE MAN FROM NOWHERE* (2010), an action thriller which was Korea's biggest box office draw of 2010, selling 6.9 million tickets at the domestic box office. Currently, Mr. Lee is producing the USD 50 million Hollywood blockbuster, *SNOWPIERCER*, with internationally renowned directors Park Chan-wook and Bong Joon-ho, due to be released in August 2013. Prior to establishing Opus Pictures in 2005, Mr. Lee was the CEO of Moho Films, a leading Korean film production company established in partnership with Park Chan-Wook and other renowned Korean directors. Mr. Lee also worked at PMC Pictures, one of the leading musical production companies in Korea. He graduated with a B.A. from Sogang University in Korea, and a Master's degree in European Film Studies from Edinburgh University in the U.K.

The following are the shareholders of Opus as of the date of this MD&A:

<b><u>Shareholder</u></b>	<b><u>Number of Common Shares Owned</u></b>	<b><u>% Ownership</u></b>
Spackman Entertainment Group Limited	25,110	93%
Spackman Equities Limited	1,890	7%
<b>TOTAL</b>	<b>27,000</b>	<b>100%</b>

### **Zip Cinema**

Zip Cinema Co., Ltd. ("Zip") 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, production, financing, and distribution of theatrical motion pictures with a strong commitment to bringing original content to moviegoers from the most innovative Korean filmmakers. From its early days, Zip has achieved notable critical and box office success with such hits as *VOICE OF A MURDERER* (2006), which sold 3.25 million tickets at the domestic box office and *HAPPINESS*, a film that premiered at the Toronto International Film Festival in 2007. More recently, *WOOCHI* (2009), with 6.2 million tickets sold domestically, became one of the highest grossing movies in Korean movie history and also achieved significant success in overseas markets. *HAUNTERS* (2010) also achieved the milestone of over 2.5 million tickets sold domestically. Zip's most recent release, *ALL ABOUT MY WIFE*, opened in Korean theatres in May 2012, and has sold over 4.6 million tickets (and grossing over KRW 34.2 billion) domestically, becoming Korea's highest-grossing romantic comedy of all time, and cementing Zip's industry-wide reputation as a serial hit-maker. Films produced by Zip are also licensed to ancillary markets including new media, cable, broadcast television, and home video/DVD and its films are distributed and shown in Korea and internationally.

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)

### **Management of Zip**

Ms. Eugene Lee is the Founder, Chief Executive Officer and Head Producer of Zip Cinema. Ms. Lee commenced her film career as Marketing Director of B.O.M. Films, another major Korean film label. She also worked as an advertising executive at KORAD, one of the largest advertising agencies in

Korea at the time. Before establishing Zip Cinema, she has produced several major films, virtually all of which achieved critical and commercial success domestically and abroad. Her production track record includes *THE UNINVITED* (2003), *UNTOLD SCANDAL* (2003), and *A BITTERSWEET LIFE* (2005). Ms. Lee's talent for producing hit movies continued after the founding of Zip and her track record led Variety to name her as one of the "10 Producers to Watch" in the world in 2007. After establishing Zip Cinema at the end of 2005, Ms. Lee produced some of Korea's biggest box office hits, including *VOICE OF A MURDERER* (2006), which sold 3.25 million tickets at the domestic box office, and *HAPPINESS* (2007), a film that premiered at the Toronto International Film Festival in 2007. More recently, Ms. Lee produced *WOOCHI* (2009), which was the #1 Korean film of 2009 at the domestic box office selling 6.5 million tickets. *HAUNTERS* (2010) also achieved over 2.5 million tickets domestically, establishing Zip Cinema's leading position in the industry. Zip's most recent release, *ALL ABOUT MY WIFE* (2012) sold over 4.6 million tickets domestically (grossing over KRW 34.2 billion), becoming one of Korea's highest-grossing romantic comedy of all time. Ms. Lee graduated with a B.A. from Ewha Women's University in Korea.

The following are the shareholders of Zip as of the date of this MD&A:

<u>Shareholder</u>	<u>Number of Common Shares Owned</u>	<u>% Ownership</u>
Spackman Entertainment Group Limited	15,614	92.996%
Spackman Equities Limited	1,176	7.004%
<b>TOTAL</b>	<b>16,790</b>	<b>100%</b>

## ***RESULTS OF OPERATIONS***

For the year ended December 31, 2012, the Company had revenue of \$6,234,000 compared with revenue of \$53,000 for the year ended 2011, not including the revenue from operations discontinued in 2011 (see Note 5). Revenue for the year is primarily the film production and distribution revenues of Opus and Zip which were \$4,642,000, as well as revenues of \$470,000 from the investment trading of public equities and other income of \$1,122,000. The revenue from operations discontinued in 2011, which is the revenue from Centiva for the period up to October 31, 2011, was \$397,000.

General and administrative expenses totalled \$1,729,000 for the year compared with \$399,000 for 2011. The increase was mainly the result of including the general and administrative expenses from the Opus and Zip businesses, which were consolidated in 2012. In addition for the 2012 year the Company had direct production costs of \$4,014,000 (nil for 2011) and selling expenses of \$1,080,000 (nil for 2011).

As a result of the foregoing, the Company recorded a net loss of \$914,000 (\$0.007 per share) for the 2012 year (net loss of \$608,000 (\$0.012 per share) for 2011). The Company reported a net comprehensive loss of \$924,000 for 2012: a net comprehensive loss of \$364,000 for 2011.

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

	Quarter to December 31 2012	Quarter to September 30 2012	Quarter to June 30 2012	Quarter to March 31 2012	Quarter to December 31 2011	Quarter to September 30 2011	Quarter to June 30 2011	Quarter to March 31 2011
<b>Revenue</b>								
Sales	905,307	1,179,747	2,377,557	178,910	(375,120)	131,337	\$103,143	140,640
Interest and investment income	150,966	51,119	66,158	19,564	41,456	3,596	4,542	3,406
<b>Gain (loss), realized and unrealized,</b>								
	508,563	12,621	(45,433)	(5,300)	303,428	(306,009)	(20,309)	22,890
<b>Net Income (Loss)</b>								
Total	(1,206,685)	70,475	1,338,706	(1,116,253)	(133,714)	(349,816)	(89,965)	(34,415)
Per share	(0.017)	0.00	0.02	(0.01)	(0.002)	(0.008)	(0.001)	0.00
Per share (diluted)	(0.017)	0.00	0.02	(0.01)	(0.002)	(0.008)	(0.001)	0.00
<i>Other Comprehensive Income (Loss), being increase (decrease) in fair value of publicly-traded investments available for sale</i>								
	31,299	(82,981)	89,447	(47,816)	-	269,889	(8,000)	(18,000)
<b>Comprehensive (Loss) income</b>								
	(1,175,386)	(12,506)	1,428,153	(1,164,069)	(133,714)	(79,927)	(97,965)	(52,415)

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

Working capital at December 31, 2012 was \$(32,000) compared with \$927,000 at the end of 2011. The decrease is mainly the result of consolidating the businesses of Opus and Zip.

Current liabilities were \$8,915,000 at December 31, 2012, compared to \$134,000 at the end of 2011.

Cash, cash equivalents and marketable securities increased to \$6,745,000 at December 31, 2012, from \$1,056,000 at the end of 2011. The increase is mainly the result of the completion of the equity financing in the second quarter of 2012.

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 \$1,729,000 for the 2012 year (\$399,000 for 2011).

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

The financial condition of the Company at December 31, 2012, improved from the condition at the end of the previous year, due to the equity financing that the Company completed effective May 25, 2012 for gross proceeds of \$4,350,000 (net proceeds of \$4,133,000). At December 31, 2012, the Company had cash, cash equivalents and marketable securities of \$6,745,000 (December 31, 2011 \$1,056,000) and total liabilities, current and long-term, of \$8,927,000 (December 31, 2011 \$134,000).



## ***ANALYSIS OF FOURTH QUARTER RESULTS***

For the fourth quarter ended December 31, 2012, the Company had revenue of \$2,380,000, which is primarily film production revenues of Opus and Zip, as well as revenues from the investment trading of public equities.

General and administrative expenses totalled \$1,185,000 for the fourth quarter (\$113,000 for the fourth quarter of 2011). The increase was mainly the result of including the general and administrative expenses from the Opus and Zip businesses, which were consolidated in 2012.

As a result of the foregoing, the Company recorded a net loss of \$1,207,000 (\$0.017 per share) for the fourth quarter (loss of \$134,000 (\$0.002 per share) for the fourth quarter of 2011). The Company reported a net comprehensive loss of \$1,175,000 for the fourth quarter of 2012: a net comprehensive loss of \$134,000 for the fourth quarter of 2011).

## ***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 2012.

	<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>
<b>Name</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Brian Hemming	Nil	Nil	Nil	Nil	Nil	Nil	Nil
John Pennal	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Charles Spackman	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Martin Mohabeer	\$15,000 US	Nil	Nil	Nil	Nil	Nil	\$15,000 US
Richard Lee	\$15,000 US	Nil	Nil	Nil	Nil	Nil	\$15,000 US

Mr. Spackman is entitled to receive \$120,000 US annually as Chairman and Chief Executive Officer under his employment contract with the Company. Mr. Spackman received \$30,000 US in the fourth quarter of 2012 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. Mr. Spackman received a payment of \$63,000 in the first quarter of 2013 which represented 15% of the net realized gains from investment trading activities. No options have been issued to Mr. Spackman by the Company.

Mr. Pennal received \$15,000 in the fourth quarter of 2012 as Vice President.

Jenifer Cho received \$13,500 in the fourth quarter of 2012 as Chief Financial Officer.

## ***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 December 31, 2012 was \$6,745,000. 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 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, SIL, 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 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 dependant 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, 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 year ended December 31, 2012 and the comparative information presented in the financial statements for the year ended December 31, 2011 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 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.

Moving forward SEGI will continue to work with the managements of Opus and Zip to enhance the value of their businesses.

SEGI understands that the managements of Opus and Zip have a deeper understanding and knowledge of the specific business and sector in which it operates. Therefore, SEGI plans to actively work with the managements of Opus and Zip 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 Opus, and Zip 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 Opus and Zip 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 Opus and Zip 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 Opus and Zip 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 Opus and Zip 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 Opus and Zip and its other investments in the Company's share price.

### ***SUBSEQUENT EVENTS***

The following events or transactions have occurred since December 31, 2012:

- In the first quarter of 2013, the Company paid a performance bonus to Mr. Spackman in the amount of \$63,000. This amount represents 15% of the net realized gains from investment trading activities by the Company and SIL, collectively, to which Mr. Spackman is entitled under his employment contract.
- Brian Hemming resigned as a director of the Company in the second quarter of 2013.

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

The Company has authorized an unlimited number of common shares and an unlimited number of preference shares issuable in series. As at April 30, 2013, there were outstanding 148,829,183 common shares, options to acquire an additional 1,286,000 common shares and warrants to acquire 756,000 common shares.

### ***OTHER INFORMATION***

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

April 30, 2013