

# SPACKMAN EQUITIES GROUP

## Spackman Equities Group Inc.

### Management's Discussion and Analysis For the three months ended March 31, 2015

#### 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 month period ended March 31, 2015. It is supplementary information and should be read in conjunction with the Company's financial statements and accompanying notes for the three months ended March 31, 2015 and for the year ended December 31, 2014. 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:

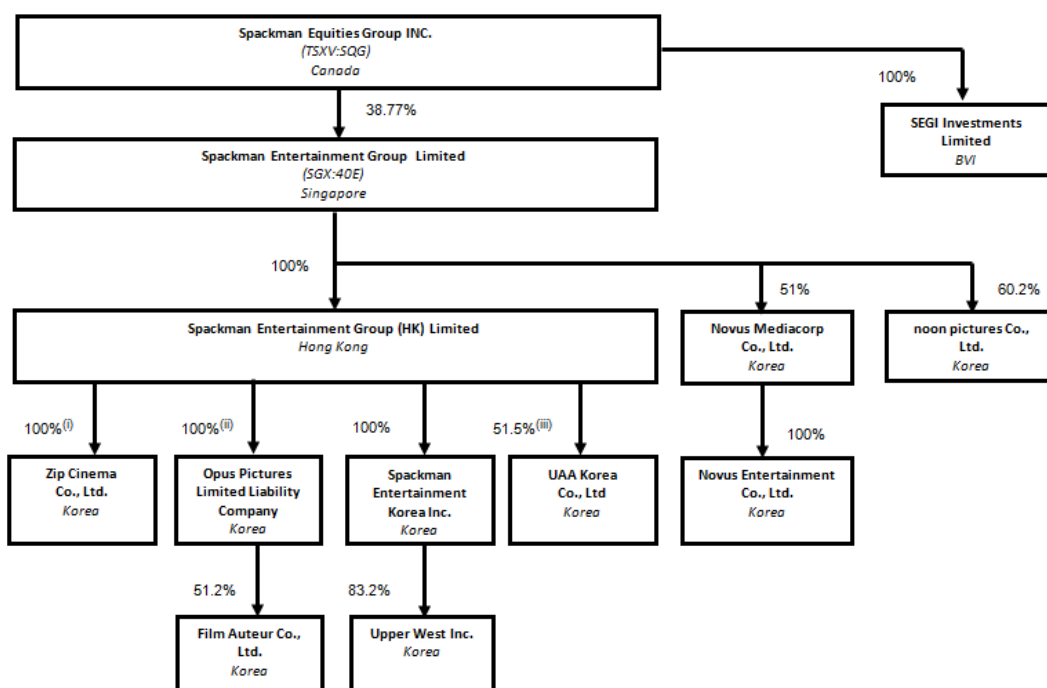
- 38.77% ownership of Singapore-incorporated Spackman Entertainment Group Limited ("SEGL"), which is listed on the Catalist of the Singapore Exchange (ticker: 40E) and is a leading Korean film and entertainment company that wholly-owns Zip Cinema Co., Ltd., Opus Pictures Limited Liability Company, and Spackman Entertainment Korea Inc.;
- 100% of SEGI Investments Limited, an investment company that invests into public equities; and
- marketable securities.

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

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 this 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")
- (ii) SEGHK owns 99.71% of Opus directly, and the remaining 0.29% through its wholly-owned subsidiary SEL
- (iii) SEGHK owns 51.36% of UAA Korea directly, and the remaining 0.13% through Opus

## Spackman Entertainment Group Limited

Spackman Entertainment Group Limited ("SEGL") 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). As part of the IPO of SEGL, the Company has agreed not to sell, transfer, assign or otherwise dispose of its shares of SEGI for a period of 12 months from July 22, 2014, which was the date SEGL's shares were listing for trading on the Catalist in Singapore.

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 17 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).

Details concerning the operations, financial results and financial standing of SEGL and its subsidiaries Zip and Opus in 2014 are contained in SEGL's Annual Report for 2014 that is available at [www.spackmanentertainmentgroup.com](http://www.spackmanentertainmentgroup.com).

### **RESULTS OF OPERATIONS**

For the first quarter ended March 31, 2015 (the "current quarter"), the Company had revenue of \$(12,702,000) compared with revenue of \$357,000 for the first quarter of 2014. This loss for the current quarter is primarily the unrealized loss on fair value of investment in SEGL, (ticker: 40E) which trades on the Catalist of the Singapore Exchange. The share price of SEGL declined from SGD\$0.23 as at December 31, 2014 to SGD\$0.13 as of March 31, 2015.

General and administrative expenses totalled \$199,000 for the current quarter compared with \$269,000 for the first quarter of 2014. The decrease was mainly the result of lower activity of the Company.

As a result of the foregoing, the Company recorded a net loss and net comprehensive loss of \$(11,549,000) (\$0.08 per share) for the current quarter compared with net income of \$108,000 (\$0.00 per share) for the first quarter of 2014.

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

	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Revenue								
Sales								
Others	9	(10,092)	105,511	21,808	37,058	745,883	20,051	29,531
Gain (loss), realized and unrealized,	(12,711,294)	(15,536,409)	38,463,962	8,750	29,426	984,086	751,045	(30,921)
Net profit (Loss)								
Total	(11,549,306)	(18,839,748)	36,836,382	(300,650)	(202,624)	641,507	515,667	(230,902)
Per share	(0.08)	(0.13)	0.25	0.00	0.00	0.00	0.02	(0.00)
Per share (diluted)	(0.08)	(0.13)	0.25	0.00	0.00	0.00	0.02	(0.00)

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

Working capital at March 31, 2015 was \$20,414,000 compared with \$33,308,000 at the end of 2014. Current liabilities were \$40,000 at December 31, 2014, compared to \$48,000 at the end of 2014. Cash, cash equivalents, marketable securities and public investments decreased to \$20,454,000 at March 31, 2015, from \$33,276,000 at December 31, 2014. As previously noted, the Company has agreed not to sell or otherwise dispose of its shareholding in SEGL for a period of 12 months from July 22, 2014.

The decrease in working capital and in cash, cash equivalents, marketable securities and public investments at March 31, 2015 compared to the end of 2014 was mainly due to a decrease in the trading value of the Company's investment in SEGL (ticker:40E) which trades on the Catalist of the Singapore Exchange.

The Company's capital resources consist of cash, cash equivalents, marketable securities and public investments, 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 \$199,000 for the first quarter of 2015, \$1,241,000 for the 2014 year and \$269,000 for the first quarter of 2014.

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

The financial condition of the Company at March 31, 2015, was largely unchanged, other than the unrealized loss on the fair value of investments on shares of SEGL of \$12,703,000, from the financial condition at the end of 2014. At March 31, 2015, the Company had cash, cash equivalents, marketable securities and public investments of \$20,454,000 (December 31, 2014 \$33,276,000) and total liabilities, current and long-term, of \$40,000(December 31, 2013 \$48,000).

## **DIRECTORS AND OFFICERS COMPENSATION**

The following table sets out all compensation paid to directors of the Corporation for their services as directors in the first quarter of 2015.

<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>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</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 \$30,000 US in the first quarter of 2015 as Chairman and Chief Executive Officer. Mr. Pennal received \$15,000 in the first quarter of 2015 as Vice President. Alex Falconer received \$8,000 US in the first quarter of 2015 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**

The Company's cash on hand, cash equivalents, marketable securities and public investments at March 31, 2015 was \$20,454,000. As previously noted the Company has agreed not to sell or otherwise dispose of its shareholding in SEGL for a period of 12 months from July 22, 2014. These resources should be adequate to continue to fund the Company's operations for the foreseeable future. If the Company had to raise capital to fund its operations or to make further investments in its businesses it would have to sell assets, or raise funds through the sale of additional equity or a combination of those two things. There may not be a ready market for the sale of its assets and it may not be possible to issue additional shares or other securities, or the issue of additional shares or other securities if it were to be possible may result in significant dilution to the interests of existing shareholders.

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

### **Limited Diversification of Investments**

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

## **Industry Risks**

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

## **Competition**

The Korean film production companies owned by the Company's subsidiary SEGL face intense competition in their respective markets, including competition from other companies some of whom have greater financial and other resources, and more advanced technological development. The movie production industry is a world-wide industry and films made in Hollywood, India and many other countries compete with Korean films on the worldwide stage for viewership. There can be no assurance that they will be able to successfully compete against their respective competitors or that such competition will not have a material adverse effect on their businesses, financial condition, results of operations and cash flows.

## **Currency Fluctuations**

The Company is exposed to fluctuations in the value of the currencies of the Republic of Korea, the Special Administrative Region of Hong Kong, 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 first quarter ended March 31, 2015 and for the year ended December 31, 2014 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 invest into or acquire small/medium-sized growth companies in Asia, 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 investee or acquired company to enhance its value; (iii) whenever possible, originate collaboration amongst the portfolio of investee or 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 performances of the investee or 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. On the day immediately prior to the date of this MD&A, the SEGL shares closed at a price of SGD \$0.136, and the market value of the Company's investment in SEGL is SGD \$21,028,320 (CAD \$19,277,888) or CAD \$0.124 per SEGI share. As previously noted, the Company has agreed not to sell or otherwise dispose of its shareholding in SEGL for a period of 12 months from July 22, 2014.

Moving forward SEGI will continue to work with the management of SEGL and its other investee companies to enhance the value of their businesses.

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 March 31, 2015 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.

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

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

May 29, 2015