

# SPACKMAN EQUITIES GROUP

## Spackman Equities Group Inc.

### Management's Discussion and Analysis For the three and nine months ended September 30, 2019

#### OVERVIEW

The following Management's Discussion and Analysis ("MD&A") provides additional analysis of the operations, financial position and financial performance of Spackman Equities Group Inc. ("SEGI" or the "Company") for the three and nine months ended September 30, 2019. It is supplementary information and should be read in conjunction with the Company's consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2019 and for the year ended December 31, 2018. 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:

- 12.00% 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 entertainment production company;
- 0.41% of Spackman Media Group Limited, a Hong Kong incorporated company which is 43.88% owned by SEGL in terms of effective shareholding interest, and which, together with its subsidiaries, is collectively one of the largest entertainment talent agencies in Korea; and
- investments in non-publicly traded companies.

#### 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

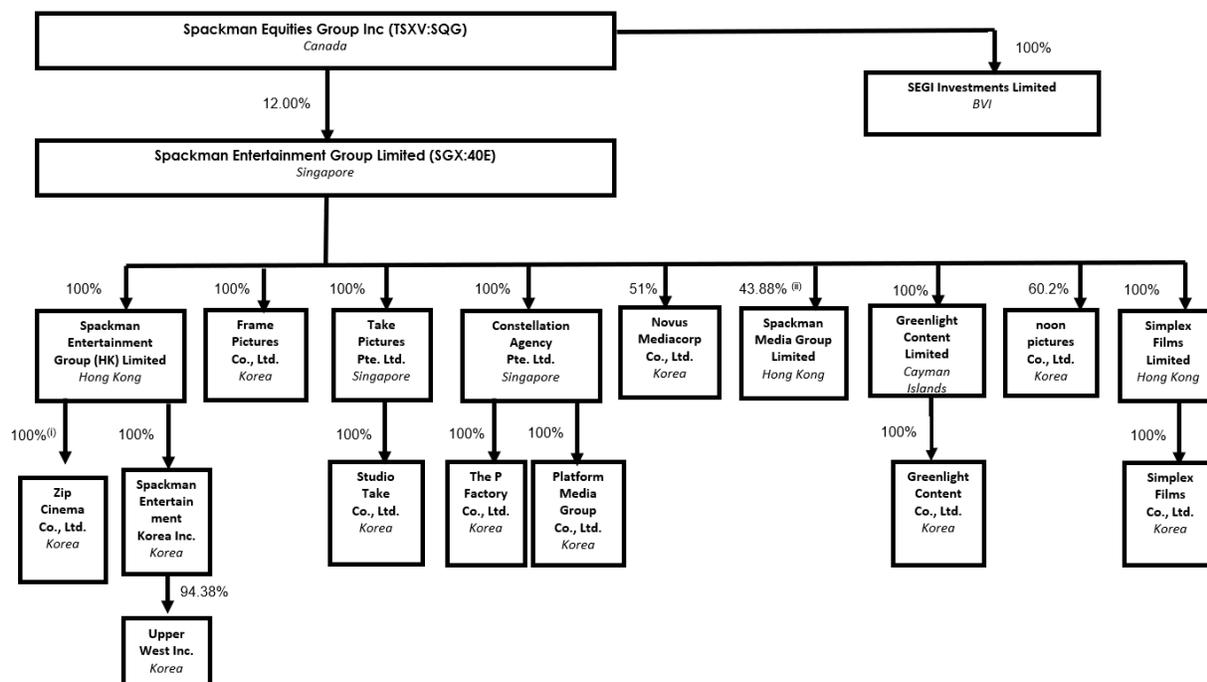
these cautionary comments. Except as otherwise required by applicable securities statutes or regulation, the Company expressly disclaims any intent or obligation to update publicly forward-looking information, whether as a result of new information, future events or otherwise.

### CHANGE OF ACCOUNTING POLICY

The Company's financial statements for the three-month period ended September 30, 2019 reflect that it is an investment entity under IFRS 10 *Consolidated Financial Statements* and no longer provides disclosures as required by IFRS 12 *Disclosures of Interests of Other Entities* including comparative summarized financial disclosure and other disclosures required under paragraph 21 of IFRS 12.

### STRUCTURE AND HOLDINGS

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



NOTES:

- (i) Spackman Entertainment Group (HK) Limited ("SEGHK") owns 92.996% of Zip directly, and the remaining 7.004% through its wholly-owned subsidiary Spackman Equities Limited
- (ii) Spackman Entertainment Group Limited owns 42.25% of Spackman Media Group Limited directly, and 1.63% through its wholly-owned subsidiary Constellation Agency Pte. Ltd. for an effective shareholding of 43.88%

### Spackman Entertainment Group Limited

Spackman Entertainment Group Limited ("SEGL"), and together with its subsidiaries, (the "Group"), a leading entertainment production group founded by investment veteran Mr. Charles Spackman, is primarily engaged in the independent development, production, presentation, and financing of theatrical motion pictures in Korea and the production of Korean television dramas. In addition to the content business, SEGL also makes investments into entertainment companies and film funds that can financially and strategically complement its existing core operations. SEGL is listed on the Catalist of the Singapore Exchange Securities Trading Limited under the ticker 40E.

SEGL's Zip Cinema Co., Ltd. ("**Zip Cinema**") is one of the most recognised film production labels in Korea and has originated and produced some of Korea's most commercially successful theatrical films, consecutively producing 9 profitable movies since 2009, representing an industry leading track record. Recent theatrical releases of Zip Cinema's motion pictures include some of Korea's highest grossing and award-winning films such as *DEFAULT* (2018), *MASTER* (2016), *THE PRIESTS* (2015), *COLD EYES* (2013), and *ALL ABOUT MY WIFE* (2012). For more information on Zip Cinema, visit <http://zipcine.com>.

SEGL also owns a 51% equity interest in Novus Mediacorp Co., Ltd. ("**Novus Mediacorp**"), an investor, presenter, and/or post-theatrical rights distributor for a total of 79 films (58 Korean and 21 foreign) including *ROSE OF BETRAYAL*, *THE OUTLAWS* and *SECRETLY, GREATLY*, which was one of the biggest box office hits of 2013 starring Kim Soo-hyun of *MY LOVE FROM THE STARS* fame, as well as *FRIEND 2: THE GREAT LEGACY*. In 2012, Novus Mediacorp was also the post-theatrical rights distributor of *ALL ABOUT MY WIFE*, a top-grossing romantic comedy produced by Zip Cinema. In 2018, *THE OUTLAWS* broke the all-time highest Video on Demand ("**VOD**") sales records in Korea. Novus Mediacorp is currently in the process of seeking a listing on the Singapore Stock Exchange. For more information on Novus Mediacorp, visit <http://novusmediacorp.com>.

The Group's films are theatrically distributed and released in Korea and overseas markets, as well as for subsequent post-theatrical worldwide release in other forms of media, including cable TV, broadcast TV, IPTV, VOD, and home video/DVD, etc. The Group releases all its motion pictures into wide-theatrical exhibition initially in Korea, and then in overseas and ancillary markets.

The Group also operates a café-lounge called Upper West, in the Gangnam district of Seoul and owns a professional photography studio, Noon Pictures Co., Ltd.

The Group owns a 100% equity interest in Frame Pictures Co., Ltd. ("**Frame Pictures**"). Frame Pictures is a leader in the movie/drama equipment leasing business in Korea. Established in 2014, Frame Pictures has worked with over 25 top directors and provided the camera and lighting equipment for some of Korea's most notable drama and movie projects including the upcoming Korean film *GIRL COPS* (2018) featuring rising star Wi Ha-jun of Spackman Media Group Limited ("**SMGL**") and *THE GREATEST DIVORCE* (2018) starring Bae Doona of SMGL. In 2018, Frame Pictures has also won contracts to supply equipment to *FOUR MEN* (2019), *ASADAL CHRONICLES* (2019), *THE CROWNED CROWN* (2019), *THE BEAUTY INSIDE* (2018), *HUNDRED MILLION STARS FROM THE SKY* (2018), *LOVELY HORRIBLY* (2018), *THE GUEST* (2018), historical Korean movie *MALMOI, SUITS* (2018) featuring Park Hyung-sik of SMGL, *MISTRESS* (2018), *LIFE* (2018), *LIVE* (2018) starring Lee Kwang-soo of *RUNNING MAN*, *MY MISTER* (2018) and Netflix's first Korean original production *LOVE ALARM* (2018). Frame Pictures and Novus Mediacorp are currently seeking to list on the Singapore Stock Exchange.

The Company owns a 100% equity interest Take Pictures Pte. Ltd. ("Take Pictures") which has an upcoming film *STONE SKIPPING* and a line-up of other films such as the co-production with Zip Cinema for *THE PRIESTS 2*.

SEGL owns a 100% equity interest in Constellation Agency Pte. Ltd. ("**Constellation Agency**"). Constellation Agency, which owns The P Factory Co., Ltd. ("**The P Factory**") and Platform Media Group Co., Ltd. ("**PMG**"), is primarily involved in the business of overseas agency for Korean artists venturing into the overseas market. The P Factory is an innovative marketing solutions provider specializing in event and branded content production. PMG is a talent management agency which represents and manages the careers of major artists in film, television, commercial endorsements, and branded entertainment.

SEGL owns a 100% equity interest in Greenlight Content Limited which is mainly involved in the business of investing into dramas and movies, as well as providing consulting services for the production of Korean content.

The Company owns a 100% equity interest in Simplex Films Limited ("**Simplex Films**") which is an early stage film production firm. Simplex Films has several films in the pipeline including, *A BOLT FROM THE BLUE*, *IRREVOCABLE PROMISE* and *OUR SUPERSTAR K*.

For more details, visit <http://www.spackmanentertainmentgroup.com>

### **Spackman Media Group Limited**

The Group is a strategic shareholder of Spackman Media Group Limited ("**SMGL**") and owns a 43.88% effective equity interest in SMGL. In addition, SEGI directly owns a 0.41% equity interest in SMGL.

SMGL, a company incorporated in Hong Kong, together with its subsidiaries, is collectively one of the largest entertainment talent agencies in Korea in terms of the number of artists under management, including some of the top names in the Korean entertainment industry. SMGL operates its talent management business through renowned agencies such as MS Team Entertainment Co., Ltd., UAA & Co Inc., Fiftyone K Inc., SBD Entertainment Inc., and Kook Entertainment Co., Ltd. Through these full-service talent agencies in Korea, SMGL represents and guides the professional careers of a leading roster of award-winning actors/actresses in the practice areas of motion pictures, television, commercial endorsements, and branded entertainment. SMGL leverages its unparalleled portfolio of artistes as a platform to develop, produce, finance and own the highest quality of entertainment content projects, including theatrical motion pictures, variety shows, and TV dramas. This platform also creates and derives opportunities for SMGL to make strategic investments in development stage businesses that can collaborate with SMGL artists. SMGL is an associated company of the Group.

### **RESULTS OF OPERATIONS**

For the third quarter ended September 30, 2019, the Company had an investment loss of \$1,310,000 compared with an investment loss of \$1,410,000 for the third quarter of 2018. Investment loss for the period is mainly the unrealized loss of \$1,312,000 on the fair value of the Company's investment in SEGL.

General and administrative expenses totalled \$68,000 for the current quarter compared with \$85,000 for the third quarter of 2018. The decrease was mainly the result of a decrease in rental expense and wages and salaries paid in the quarter.

As a result of the foregoing, the Company recorded a net loss and comprehensive loss of \$1,386,000 (\$0.01 per share) for the third quarter of 2019 (net loss of \$1,519,000 (\$0.01 per share) for the third quarter of 2018).

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

	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Gain (loss), realized and unrealized, on marketable securities	(1,312,032)	(87,205)	(461,500)	(2,211,729)	(1,409,563)	(6,136,115)	(237,042)	(2,167,488)
Other income	1,548	1,014	992	11	nil	nil	nil	199
Net Income (Loss)								
Total	(1,385,838)	(136,256)	(531,991)	(2,297,590)	(1,519,419)	(6,170,265)	(283,116)	(2,167,288)
Per Share	(0.01)	0.00	0.00	(0.07)	(0.01)	(0.04)	(0.00)	(0.03)
Per Share diluted	(0.01)	0.00	0.00	(0.07)	(0.01)	(0.04)	(0.00)	(0.03)

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

Cash and cash equivalents, loan receivable and shares of public and private companies decreased to \$2,233,000 at September 30, 2019, from \$6,340,000 at September 30, 2018.

The decrease in cash and cash equivalents, and shares of public and private companies was mainly due to a decrease of \$1,861,000 in the fair value of the Company's investment in SEGL at September 30, 2019 from December 31, 2018.

The Company's capital resources consist of cash and cash equivalents, and shares of public and private companies, 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 \$68,000 for the current quarter, \$256,000 for the 2018 year and \$85,000 for the third quarter of 2018.

Current liabilities were \$165,000 at September 30, 2019, compared to \$93,000 at the end of 2018 and \$38,000 at September 30, 2018.

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

The financial condition of the Company at September 30, 2019 and the financial performance in the current quarter ended September 30, 2019 both decreased from the corresponding prior periods mainly as a result of the decrease in the fair value of the Company's investment in SEGL.

At September 30, 2019, the Company had cash and cash equivalents loan receivable, and shares of public and private companies of \$2,233,000 (December 31, 2018 \$4,064,000 and September 30, 2018 \$6,340,000) and current liabilities of \$165,000 (December 31, 2018 \$93,000 and September 30, 2018 \$38,000).

## **DIRECTORS AND OFFICERS COMPENSATION**

The following table sets out all compensation payable to directors of the Corporation for their services as directors in the third quarter of 2019.

<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
Richard Lee	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Kyoungwon Na	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Mr. Pennal received \$15,000 in the third quarter of 2019 as Vice President. Mr. Falconer received \$6,000 US in the third quarter of 2019 as CFO. Mr. Lee did not receive any compensation as Chairman and CEO in the third quarter of 2019.

## **RELATED PARTY TRANSACTIONS**

The following related party transactions occurred and were reflected in the consolidated financial statements for the three months ended September 30, 2019 and September 30, 2018 as follows:

## **REMUNERATION OF KEY PERSONNEL**

	<b>Three Months September 30,</b>	
	<b>2019</b>	<b>2018</b>
Management salaries	\$30,300	\$23,755
Director fees	15,000	\$15,215
Total	<u>\$45,300</u>	<u>\$38,970</u>

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Company including the Company's Board of Directors. The Company considers key management to be the members of the Board of Directors, the Chief Executive Officer, the Vice President and the Chief Financial Officer.

## **SIGNIFICANT ACCOUNTING POLICIES**

The Company's financial statements for the three and nine months ended September 30, 2019 were prepared using accounting policies consistent with IFRS. A summary of significant accounting policies under IFRS is presented in Note 3 of the consolidated financial statements of the Company for the year ended December 31, 2018.

## **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, and shares of public and private companies at September 30, 2019 was \$2,103,000. 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 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 SEGL which owns film production and distribution businesses in Korea and certain other related investments. The film production and distribution 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 and distribution 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 or other sources.

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

### **Currency Fluctuations**

The Company is exposed to fluctuations in the value of the currencies of the Republic of Korea, the Special Administrative Region of Hong Kong, Singapore, Canada and the United States. The Company does not use currency derivatives to hedge against adverse currency fluctuations.

### **Legal Claims and Other Contingencies**

The Company and its investee companies may become parties to law suits, claims and litigation arising in the ordinary course of business. Such law suits could result in significant costs and the outcome of such law suits could have a material negative impact on the Company's financial position, operating results, or the Company's ability to continue to carry on its business activities.

### **Lack of Market for the Company's Shares**

Although the Company's common shares are listed and traded on the TSX Venture Exchange, there may not be a liquid market for the shares and any market price for the shares may not reflect the underlying value of the Company's business and assets.

### **Economic Conditions in Korea**

The principal asset of the Company is its investment in the shares of SEGL and the majority of SEGL's operations and assets are located in the Republic of Korea through its ownership of film production and distribution 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 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.

## ***STRATEGY AND FUTURE DIRECTION***

The Company's initial strategy and focus was to (i) identify and acquire small/medium-sized growth companies, primarily in the Republic of Korea, that possess proprietary know-how or technologies and a track record of profitable operations; (ii) assist the management of each acquired company to enhance its value; (iii) originate collaboration amongst the portfolio of acquired companies to create new opportunities for one another and leverage off each others' capabilities and resources; and (iv) reflect the collective value derived from the performance of the acquired businesses on the share price of the Company. As a result of the implementation of this strategy the Company made a number of investments in the Korean film and entertainment business through SEGL.

The Company's principal asset is its 12.00% interest in the shares SEGL that are listed and trade on the Catalist of the Singapore Exchange. SEGI's strategy and focus will continue to be to work with the management of SEGL and its other investee companies to enhance the value of their businesses and thereby improve the value of the Company's investment.

SEGI may also opportunistically make investments in selected small-capitalization publicly-traded companies that the Company believes are attractive investment propositions, or undervalued relative to their underlying financial fundamentals and operating performance. After making an investment into such publicly-traded companies, SEGI plans to encourage and implement such measures as changes in management strategy, business diversification, cost cutting, strategic mergers & acquisitions, capital restructuring, improvements in investor relations activities, and other initiatives typically undertaken by corporate restructuring specialists, in order to seek capital appreciation. Such small-cap stocks targeted by SEGI are investment opportunities that are normally overlooked by institutional investors (i.e. private equity funds, hedge funds, special situations funds, etc.) due to their small size and relatively negligible presence in the market, making such opportunities an attractive niche for SEGI to exploit without significant competition.

The ultimate objective of the Company will be to reflect the collective value derived from the performances of SEGL, SMGL and other investments in the Company's share price for the benefit of the Company's shareholders.

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

The Company has authorized an unlimited number of common shares and an unlimited number of preference shares issuable in series. At September 30, 2019 and the date of this MD&A there were 148,900,183 outstanding common shares.

### ***OTHER INFORMATION***

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

November 29, 2019