

SPACKMAN EQUITIES GROUP INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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Independent Auditors' Report

To the Shareholders of Spackman Equities Group Inc.:

We have audited the accompanying consolidated financial statements of Spackman Equities Group Inc., which comprise the consolidated statement of financial position as at December 31, 2017 and 2016, and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Spackman Equities Group Inc. as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Toronto, Ontario

April 30, 2018


Chartered Professional Accountants
Licensed Public Accountants

SPACKMAN EQUITIES GROUP INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
AS AT

| | Notes | December 31, 2017 | December 31, 2016 |
|--|-------|----------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | 4 | \$ 404,534 | \$ 114,870 |
| Marketable securities | 5 | - | 7,500 |
| Investment in associate | 6 | 13,424,551 | 27,553,284 |
| Investment in shares of private company | 7 | 491,595 | - |
| Prepaid expenses | | 74,787 | 93,939 |
| Property and equipment | 8 | - | 170 |
| Deferred tax assets | 13 | 607,583 | - |
| | | \$ 15,003,050 | \$ 27,769,763 |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | 9 | \$ 56,822 | \$ 36,059 |
| Loan payable | 10 | 504,200 | - |
| Deferred tax liability | 13 | - | 1,363,656 |
| | | 561,022 | 1,399,715 |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 11 | 11,601,165 | 11,601,165 |
| Contributed surplus | 11(c) | 1,558,667 | 1,558,667 |
| Retained earnings | | 1,282,196 | 13,210,216 |
| | | 14,442,028 | 26,370,048 |
| | | \$ 15,003,050 | \$ 27,769,763 |

COMMITMENTS (Note 15)
CHANGE IN INVESTMENT ENTITY STATUS (Note 2)

Approved on Behalf of the Board

'Richard Lee' Director

'William Hale' Director

SPACKMAN EQUITIES GROUP INC.**CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**

(Expressed in Canadian Dollars)

| | <u>Notes</u> | Years Ended December 31, | |
|--|--------------|-----------------------------|--------------|
| | | 2017 | 2016 |
| Investment Income | | | |
| Realized gain on sale of shares in public company | | \$ 607,170 | \$ - |
| Realized loss on sale of marketable securities | 14 | (29,953) | - |
| Unrealized income (loss) on fair value of marketable securities | | 30,300 | (8,750) |
| Unrealized income (loss) on fair value of investment in associate | | (13,961,941) | 5,653,526 |
| Other income | | 200 | 197 |
| | | (13,354,224) | 5,644,973 |
| Expenses | | | |
| General and administrative | 12 | 531,560 | 651,371 |
| Amortization | 8 | 170 | 458 |
| Loss on foreign currency | | 13,305 | 25,547 |
| Total expenses | | 545,035 | 677,376 |
| Loss before income taxes | | (13,899,259) | 4,967,597 |
| Deferred income tax recovery | 13 | (1,971,239) | 495,656 |
| Net (loss) income and comprehensive (loss) income for the year | | \$ (11,928,020) | \$ 4,471,941 |
| Net loss per share | | | |
| Basic and fully diluted loss per share | | \$ (0.08) | \$ 0.03 |
| Weighted average number of shares outstanding basic and fully diluted | | 148,900,183 | 148,900,183 |

See accompanying notes to the consolidated financial statements.

SPACKMAN EQUITIES GROUP INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

| | Share capital | | Contributed surplus | Retained earnings (deficit) | Total |
|----------------------------|---------------|--------------|---------------------|-----------------------------|---------------|
| | Common shares | Amount | | | |
| Balance, January 1, 2016 | 148,829,183 | \$11,601,165 | \$ 1,558,667 | \$ 8,738,275 | \$ 21,898,107 |
| Net income for the year | - | - | - | 4,471,941 | 4,471,941 |
| Balance, December 31, 2016 | 148,829,183 | \$11,601,165 | \$ 1,558,667 | \$ 13,210,216 | \$ 26,370,048 |
| Balance, January 1, 2017 | 148,900,183 | \$11,601,165 | \$ 1,558,667 | \$ 13,210,216 | \$ 26,370,048 |
| Net loss for the year | - | - | - | (11,928,020) | (11,928,020) |
| Balance, December 31, 2017 | 148,900,183 | \$11,601,165 | \$ 1,558,667 | \$ 1,282,196 | \$ 14,442,028 |

See accompanying notes to the consolidated financial statements.

SPACKMAN EQUITIES GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

| | <u>Notes</u> | Years Ended December 31, | |
|--|--------------|-----------------------------|-------------------|
| | | 2017 | 2016 |
| OPERATING ACTIVITIES | | | |
| Net income (loss) for the year | | \$ (11,928,020) | \$ 4,471,941 |
| Adjustments not affecting cash: | | | |
| Realized gain on sale of shares in public company | | (607,170) | - |
| Realized loss on sale of marketable securities | | 29,953 | - |
| Unrealized loss (gain) on fair value of marketable securities | | (30,300) | 8,750 |
| Unrealized loss on fair value of investment in shares of associate | | 13,961,941 | (5,653,526) |
| Amortization | 8 | 170 | 458 |
| Deferred income tax recovery | 13 | (1,971,239) | 495,656 |
| | | (544,665) | (676,721) |
| Changes in non-cash working capital | | | |
| Prepaid expenses | | 19,152 | (10,737) |
| Accounts payable and accrued liabilities | | 20,763 | 3,138 |
| Cash used in operating activities | | (504,750) | (684,320) |
| INVESTING ACTIVITIES | | | |
| Disposition of shares in public company | | 773,963 | - |
| Disposition of marketable securities | | 7,846 | - |
| Investment in shares of private company | | (491,595) | - |
| Cash provided by investing activities | | 290,214 | - |
| FINANCING ACTIVITIES | | | |
| Loan | | 504,200 | - |
| Cash provided by financing activities | | 504,200 | - |
| Net (decrease) increase in cash | | 289,664 | (684,320) |
| Cash and cash equivalents, beginning of year | | 114,870 | 799,190 |
| Cash and cash equivalents, end of year | | \$ 404,534 | \$ 114,870 |

See accompanying notes to the consolidated financial statements.

SPACKMAN EQUITIES GROUP INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. INCORPORATION AND NATURE OF OPERATIONS

Spackman Equities Group Inc. (the "Company" or "SEGI") was incorporated on May 18, 2006 under the Canada Business Corporations Act and its shares are publicly traded on the Canadian Stock Exchange (the "CSE") under the symbol SQG. The registered head office is located at Royal Bank Plaza, South Tower, Suite 3800, 200 Bay Street, Toronto, Ontario, M5J 2Z4, Canada.

SEGI carries on the business of identifying and investing into or acquiring small/medium sized growth companies. The Company focuses on investing into or acquiring growth companies in Asia, principally in the Republic of Korea ("Korea") at attractive valuations, building a diversified portfolio of such growth companies and, ultimately, delivering the collective value derived from the performance of these businesses to the shareholders.

2. BASIS OF PRESENTATION

Change in Investment Entity Status

During the year, it was determined that the Company did not qualify as an investment entity as the concentration of its investments was not sufficiently diversified. Accordingly, the Company has re-assessed all of its investments to determine whether fair value reporting is still acceptable. It was also determined that the company's main investee company, Spackman Entertainment Group Limited (SEGL), is considered an associate as the Company is considered to have significant influence over it.

As the Company considers itself to be a venture capital organization, and as permitted under IAS 28, it has elected the option to record the investment in SEGL at fair value through profit and loss.

Accordingly, there was no material change to the statement of financial position, statement of comprehensive income and statement of cash flows as a result of the change in status. Additional disclosures for associates required under IFRS 12 have been made in Note 6.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements of the Company for the years ended December 31, 2017 and 2016 were approved and authorized for issue by the Board of Directors on April 30, 2018.

Basis measurement and functional currency

The consolidated financial statements are presented in Canadian dollars and have been prepared on the historical cost basis except for financial instruments measured at fair value through profit or loss. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The Company and its subsidiary's functional currency is the Canadian dollar.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, SEGI Investments Limited, a BVI company. A subsidiary is an entity in which the Company has control, directly or indirectly, where control is determined based on whether the company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

SPACKMAN EQUITIES GROUP INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

2. BASIS OF PRESENTATION (Cont'd)

Critical accounting estimates, judgment and assumptions

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the valuation of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas of financial reporting that require management's estimates and judgments are as follows:

Fair value of investment in private companies or securities not quoted in an active market

Where the fair values of financial assets and financial liabilities recorded on the consolidated statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. In certain instances, cost may be the best appreciation of fair value.

Fair value of impairment of note receivable

The recoverability of note receivable is assessed when events occur indicating impairment. Recoverability is assessed based on factors such as failure to pay interest on time and failure to pay the principal. An impairment loss is recognized in the period when it is determined that the carrying amount of the assets will not be recoverable.

Share-based payments

In calculating the stock-based compensation expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price and the risk-free interest rate are used.

Deferred income tax assets

The key estimate used in the valuation of deferred tax assets is the probability that some portion or all of the deferred tax assets will be realized. The ultimate realization of the deferred tax assets is dependent on the generation of future taxable income during the years in which the temporary differences are deductible.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The policies applied in these consolidated financial statements are based upon IFRS and its interpretations issued and outstanding as of December 31, 2017.

Investment Income

Purchases and sales of investments are recognized on the settlement date. Realized gains and losses on disposal of investments in shares of public and private companies and marketable securities and unrealized gains and losses in the value of investments in shares of public and private companies and marketable securities are reflected in the consolidated statements of income (loss) and comprehensive income (loss).

SPACKMAN EQUITIES GROUP INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Other income

Other income includes interest earned on invested funds.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Financial instruments

(i) Non-derivative financial assets

Loans and receivables are recognized at the lending date. All other financial assets are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss ("FVTPL") if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss when incurred.

Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss. Financial assets at fair value through profit or loss comprise cash and cash equivalents, marketable securities, note receivable and investment in shares of public company, and investment in shares of private company.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The Company classifies its financial assets which consist of other receivables as loans and receivables.

Investment in an associate

Investment in associate is an entity over which the Company has or is deemed to have significant influence, but not control over, the financial and operating policies. Investment in an associate is held as part of the Company's investment portfolio and carried in the consolidated statement of financial position at fair value even though the Company may have significant influence over the company. The treatment is permitted by IAS 28, Investment in Associates ("IAS 28"), which allows investments held by venture capital or similar organizations to be excluded from its scope where those investments are measured at fair value through profit or loss with changes in fair value recognized in the consolidated statements of income and comprehensive income.

SPACKMAN EQUITIES GROUP INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Investment in shares of public company

Investment in shares of public company has been designated as fair value through profit or loss and is recorded in the consolidated statements of financial position at fair value. Fair value is determined directly by reference to quoted market closing prices in active markets.

Investment in shares of private company

All privately held investments (other than options and warrants) are designated as either fair value through profit or loss or available for sale initially recorded at the transaction price, being the carrying value at the time of acquisition. Thereafter, at each reporting period, the carrying value of an investment may (depending upon the circumstances) be adjusted using one or more of the valuation indicators. Options and warrants of private companies are carried at their intrinsic value.

The determinations of fair value of the Company's privately held investments at other than initial cost are subject to certain limitations. Financial information for private companies in which the Company has investments may not be available and, even if available, that information may be limited and/or unreliable. Use of the valuation approach may involve uncertainties and determinations based on the Company's judgment and any value estimated from these techniques may not be realized or realizable. The absence of occurrence of any events or significant change in general market conditions indicates generally that the fair value of the investment has not materially changed.

(ii) Non-derivative financial liabilities

Financial liabilities are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognized when its contractual obligations are discharged, cancelled or expired.

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

(iii) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

If there is objective evidence of impairment of a financial asset carried at cost, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss, except for impairment losses on equity investments carried at cost, which are not reversed through profit or loss.

SPACKMAN EQUITIES GROUP INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks currently held by financial institutions with high credit worthiness with maturities of three months or less.

Marketable securities

Marketable securities consist of investments in equity securities which are publicly traded. Marketable securities are measured at fair value and recognized on the trade date. The fair value of publicly traded securities is determined using quoted market prices. Realized and unrealized gains and losses are recognized using average cost. Gains and losses in the changes on fair value of marketable securities are recognized in the consolidated statements of income (loss) and comprehensive income (loss).

Other receivables

Other receivables are initially recorded at the fair value of the amount expected to be received and subsequently measured at amortized cost less any provision for impairment. Individual significant receivables are considered for recoverability when they are past due or when other objective evidence is received that a specific counterparty will default.

Property and equipment

Property and equipment are measured at cost less accumulated depreciation and impairment losses.

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value.

The estimated useful lives for the current and comparative periods are as follows

| | |
|-----------------------|--|
| Equipment | 3-4 years |
| Leasehold improvement | 3-4 years (or lease term whichever is shorter) |

The net carrying amount of property and equipment are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that these values exceed their recoverable amounts, the excess is fully provided for in the financial year in which it is determined.

Where an item of property and equipment is disposed of by sale, it is derecognized and the difference between its carrying value and net proceeds is recognized as gain or loss on the disposal of asset in the consolidated statements of income (loss) and comprehensive income (loss).

Any items of property and equipment that cease to have future economic benefits expected to arise from their continued use are derecognized with the associated loss included as depreciation expense and disclosed separately.

Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination or to items recognized directly in equity or in other comprehensive income. In this case, the tax is also recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted at the reporting date in the countries in which the Company operates, and any adjustment to tax payable in respect of previous years.

SPACKMAN EQUITIES GROUP INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax (Cont'd)

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In the ordinary course of business, there are many transactions for which the ultimate tax outcome is uncertain. The final tax outcome of these matters may be different from the estimates originally made by management in determining income tax provisions. Management periodically evaluates the positions taken in the Company's tax returns with respect to situations in which applicable tax rules are subject to interpretation. A provision is established related to tax uncertainties where appropriate based on management's best estimate of the amount that will ultimately be paid to or received from tax authorities.

Foreign currency translation

Transactions denominated in foreign currencies are translated to the respective functional currencies of the Company's entity at exchange rates in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate prevailing at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate in effect at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate prevailing at the date that the fair value was determined. Non-monetary items denominated in a foreign currency that are measured based on historical cost are translated using the exchange rate in effect at the date of the transaction.

Foreign currency differences arising on translation of foreign currency balances into the functional currency are recognized in the consolidated statements of income (loss) and comprehensive income (loss).

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

SPACKMAN EQUITIES GROUP INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Stock-based compensation

The Company issues share-based awards to its officers and directors. The awards are comprised of equity settled stock options. Fair values of stock options are calculated using the Black-Scholes option pricing model at the date of the grant and adjusted for estimated forfeitures. For awards with graded vesting, the fair value of each tranche is calculated separately and recognized over its respective vesting period. Nonmarket vesting conditions are considered in making assumptions about the number of awards that are expected to vest. At each reporting date, the Company will reassess its estimates of the number of awards that are expected to vest and recognize the impact of any revision in the consolidated statements of income (loss) and comprehensive income (loss) with a corresponding adjustment to contributed surplus.

Any consideration paid on exercise of stock options or purchase of shares, together with the amount initially recorded in contributed surplus, is credited to share capital.

Net income (loss) per share

Basic income (loss) per common share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is calculated using a common share balance increased by the number of common shares that could be issued on the exercise of outstanding options of the Company. Diluted income (loss) per share for the years presented does not include the effect of stock options as they are anti-dilutive.

Leases

Leases, which do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are classified as operating leases. Leases entered into by the Company are solely operating leases with costs in respect of operating leases recognized as rent expense in the consolidated statements of income (loss) and comprehensive income (loss) in the period incurred. Lease incentives are deferred and recognized as an integral part of the total lease expense over the term of the lease.

Future Accounting Pronouncements

Standard issued but not yet effective up to the date of issuance of these financial statements is listed below. The Company intends to adopt this standard when it becomes effective.

IFRS 9, Financial Instruments, ("IFRS 9") was issued by the IASB in July 2014 in final form and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The adoption of the standard is not expected to have a material impact on the financial statements.

IFRS 15, revenue from contracts and customers ("IFRS 15") was issued by the IASB on May 28, 2014, and will replace IAS 18, revenue, IAS 11, construction contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The adoption of the standard is not expected to have a material impact on the financial statements.

SPACKMAN EQUITIES GROUP INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Future Accounting Pronouncements (Cont'd)

IFRS 16 Leases. IFRS 16 was issued on January 13, 2016. The new standard brings most leases onto the balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

The Company's cash and cash equivalents consist of the following:

| | December 31, | December 31, |
|---------------------|---------------------|---------------------|
| | 2017 | 2016 |
| Cash held in banks | \$ 404,534 | \$ 102,649 |
| Cash held by broker | - | 12,221 |
| | \$ 404,534 | \$ 114,870 |

5. MARKETABLE SECURITIES

The Company has the following marketable securities:

| | December 31, | December 31, |
|--|---------------------|---------------------|
| | 2017 | 2016 |
| Investment in equities of public companies | \$ - | \$ 7,500 |

6. INVESTMENT IN SHARES OF ASSOCIATE

| | December 31, | December 31, |
|---|---------------------|---------------------|
| | 2017 | 2016 |
| Spackman Entertainment Group Limited (SEGL) | \$ 13,424,551 | \$ 27,553,284 |

The Company owns 21.51% (December 31, 2017 - 32.97%) of SEGL, and based on the December 31, 2017 closing price of SEGL's shares on the SGX of S\$0.096(CAD \$0.09 per share), the market value of the Company's stake in SEGL is SGD \$14.3 million (CAD \$13.4million).

The Company is considered to have significant influence over SEGL. Following is a summary of financial information of SEGL.

| | December 31, | December 31, |
|--|---------------------|---------------------|
| | 2017 | 2016 |
| Current assets | \$ 27,182,964 | \$ 18,907,872 |
| Non-current assets | 30,987,554 | 10,644,269 |
| Current liabilities | 16,552,169 | 9,032,844 |
| Non-current liabilities | 4,363,196 | 2,784,082 |
| Revenues | 26,676,679 | 20,038,821 |
| Profit (loss) from continuing operations | 3,910,302 | (2,983,324) |
| Profit (loss) from discontinued operations | - | (491,207) |
| Other comprehensive income (loss) | 1,524,075 | (130,918) |
| Total comprehensive income (loss) | 5,434,377 | (3,605,449) |

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7. INVESTMENT IN SHARES OF PRIVATE COMPANY

The Company has historically made investments in private companies through equity and debt investments. Due to the uncertainty surrounding these investments, the Company historically wrote down these investments to a nominal amount. The Company considers these investments still impaired during the current period.

During the period ended December 31, 2017, the Company purchased 130,000 common voting shares of Spackman Media Group Limited (SMGL) for USD \$390,000 (CAD \$491,595), or USD \$3.00 (CAD \$3.78) per share, from an unrelated substantial shareholder of SMGL.

The Company owns 0.43% of SMGL as of December 31, 2017.

8. PROPERTY AND EQUIPMENT

| | Equipment | Total |
|--|-----------------|-----------------|
| <u>Cost</u> | | |
| Balance at December 31, 2015, 2016 and December 31, 2017 | \$ 3,647 | \$ 3,647 |
| <u>Accumulated Amortization</u> | | |
| Balance at December 31, 2015 | \$ 3,019 | \$ 3,019 |
| Amortization for the period | 458 | 458 |
| Balance at December 31, 2016 | \$ 3,477 | \$ 3,477 |
| Amortization for the period | 170 | 170 |
| Balance at December 31, 2017 | \$ 3,647 | \$ 3,647 |
| <u>Net Book Values</u> | | |
| As at December 31, 2016 | \$ 170 | \$ 170 |
| As at December 31, 2017 | \$ - | \$ - |

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | December 31, 2017 | December 31, 2016 |
|------------------|----------------------|----------------------|
| Accounts payable | \$ 16,822 | \$ 6,059 |
| Accrued expenses | 40,000 | 30,000 |
| | \$ 56,822 | \$ 36,059 |

Accounts payable and accrued liabilities are current obligations expected to be settled in the normal course of operations. There are no accounts payable past due.

10. LOAN PAYABLE

On August 9, 2017 the Company borrowed USD \$400,000 (CAD \$504,200) from an unrelated third party, on an unsecured basis for a term of one (1) year at an interest rate of 5% per annum.

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11. SHARE CAPITAL

(a) Authorized:

An unlimited number of common shares

(b) Issued and outstanding

| | Number of Shares | Amounts |
|---|------------------|---------------|
| Balance, December 31, 2015, 2016 and December 31, 2017 | 148,900,183 | \$ 11,601,165 |

(c) Stock options

The Company has an incentive stock option plan for the officers and directors enabling them to purchase common shares. Each option granted under the plan is for a maximum term of 5 years. The exercise price is determined by the Company's board of directors at the time the option is granted, subject to regulatory approval, and may not be less than the most recent closing price of the common shares at the date of grant. Vesting provisions are also determined at the time of grant by the Company's board of directors.

The stock options activity is as follows:

| | December 31, 2017 | | December 31, 2016 | |
|------------------------------------|----------------------|---------------------------------------|----------------------|---------------------------------------|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of the year | 8,745,000 | \$ 0.135 | 8,745,000 | \$ 0.135 |
| Granted | - | - | - | - |
| Outstanding, end of the year | 8,745,000 | \$ 0.135 | 8,745,000 | \$ 0.100 |

During the year ended December 31, 2017, no options were granted by the Company.

The following table summarizes the stock options outstanding as at December 31, 2017 and December 31, 2016:

| Number of options outstanding | Exercise price | Expiry date | Number of options exercisable |
|----------------------------------|----------------|---------------|----------------------------------|
| 8,745,000 | \$ 0.135 | July 30, 2019 | 8,745,000 |

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12. RELATED PARTY TRANSACTIONS

The following related party transactions occurred and were reflected in the consolidated financial statements during the years ended December 31, 2017 and 2016 as follows:

REMUNERATION OF KEY PERSONNEL

| | Years Ended December 31, | |
|---------------------|-----------------------------|-------------------|
| | 2017 | 2016 |
| Management Salaries | \$ 364,848 | \$ 258,544 |
| Directors' fees | 22,731 | 22,569 |
| Salaries | - | 53,583 |
| Total | <u>\$ 387,579</u> | <u>\$ 334,696</u> |

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

During the year ended December 31, 2017, the Company received \$124,647 (December 31, 2017 - \$140,288) in rental payments from SEGL which has a common director. The rental payments were a reimbursement of expense and have been netted off rent expense within the general and administrative expenses grouping.

13. INCOME TAXES

(a) Income tax expense

The reconciliation of income taxes attributable to operations computed at the combined statutory income tax rate of 27% (2016 - 27%) to income tax recovery is as follows:

| | December 31, 2017 | December 31, 2016 |
|---|------------------------|----------------------|
| Net Income (Loss) before recovery of income taxes | \$ (13,899,259) | \$ 4,967,597 |
| Expected income tax (recovery) expense | (3,683,300) | 1,341,251 |
| Permanent differences | - | 694 |
| Prior year true up | - | 64,334 |
| Tax rate changes and other adjustments | (689) | - |
| Share based compensation and non-deductible expenses | 1,702,300 | - |
| Permanent differences re unrealised gains on investment | - | (866,785) |
| Change in tax benefits not recognized | 10,450 | (19,000) |
| Deferred income tax expense (recovery) | \$ (1,971,239) | \$ 520,494 |

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13. INCOME TAXES (Cont'd)

(b) Deferred income taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes. The significant components of the Company's deferred income taxes are as follows:

| | December 31, 2017 | December 31, 2016 |
|--|----------------------|-----------------------|
| Deferred Tax Assets | | |
| Non-capital losses carried forward | \$ 1,792,393 | \$ 1,667,635 |
| Marketable Securities | - | 4,015 |
| Property, plant and equipment | 11,060 | 11,012 |
| | 1,803,453 | 1,682,662 |
| Deferred Tax Liabilities | | |
| Investments | (1,195,870) | (3,046,318) |
| Deferred tax assets (liabilities) | \$ 607,583 | \$ (1,363,656) |

(c) Tax loss carry-forwards

The Company has approximately \$6,763,750 (2016 - \$6,292,961) of net operating losses as at December 31, 2017 available to be carried forward against future taxable income. These non-capital losses will expire as follows:

| | |
|------|---------------------|
| 2026 | \$ 56,018 |
| 2027 | 73,317 |
| 2028 | 162,469 |
| 2029 | 140,783 |
| 2030 | 329,809 |
| 2031 | 450,287 |
| 2032 | 359,535 |
| 2033 | 617,452 |
| 2034 | 1,930,939 |
| 2035 | 1,498,248 |
| 2036 | 635,417 |
| 2037 | 509,476 |
| | \$ 6,763,750 |

The Company also has \$913,000 (2016 - \$913,000) of capital losses that can be carried forward indefinitely to offset capital gains in future years.

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's significant financial instruments comprise of cash and cash equivalents, marketable securities, other receivables, investments in shares of private and public companies, notes receivable and accounts payable and accrued liabilities.

The Company classifies financial instruments in accordance with a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The following table shows the Levels within the hierarchy of financial assets and liabilities measured at fair value at the various reporting dates:

December 31, 2017

| Recurring fair value measurements | Level 1 | Level 2 | Level 3 | Total |
|---|---------------|---------|------------|---------------|
| Cash and cash equivalents | \$ 404,534 | \$ - | \$ - | \$ 404,534 |
| Marketable securities | - | - | - | - |
| Investment in shares of associate | 13,424,511 | - | - | 13,424,511 |
| Investment in shares of private company | - | - | 491,595 | 491,595 |
| | \$ 13,829,045 | \$ - | \$ 491,595 | \$ 14,320,640 |

December 31, 2016

| Recurring fair value measurements | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------------|---------------|---------|---------|---------------|
| Cash and cash equivalents | \$ 114,870 | \$ - | \$ - | \$ 114,870 |
| Marketable securities | 7,500 | - | - | 7,500 |
| Investment in shares of associate | 27,553,284 | - | - | 27,553,284 |
| | \$ 27,675,654 | \$ - | \$ - | \$ 27,675,654 |

The Company measures its investment in private companies as a Level 3 disclosure. At year end, the investment is carried at cost which is the best approximation of fair value. The Company will adjust the fair value of the investment based on new financing rounds and comparables. From a sensitivity perspective, if a new financing round was completed at \$0.25 higher or lower, the impact on the carrying value of the investment and other comprehensive income will be higher or lower by \$32,500.

There were no transfers between Level 1 and Level 2 investments during the year ended December 31, 2017.

The determination of what constitutes observable data, requires significant judgement by the Company. The Company considers observable data to be market data that is readily available, reliable, verifiable and provided from independent transactions.

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)

Risk management

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company has exposure to the following risks from its use of financial instruments:

(a) Market risk

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity prices. The Company is exposed to market risk in trading its investments, and unfavourable market conditions could result in dispositions of investments at less than favourable prices.

The Company's investments in marketable securities at FVTPL are valued at fair value as determined by price quotations by the stock exchanges on which these investments are listed. The Company's investments in non-publicly-traded investments available-for-sale are measured at cost and are written down when there is an objective evidence of impairment. During periods of significant broader market volatility or volatility experienced by the commodity markets, the value of the Company's investment portfolio can be quite vulnerable to market fluctuations.

For the year ended December 31, 2017, a 10% decrease (increase) in the closing prices of the Company's investments in marketable securities and investment in shares of public company would result in an estimated decrease (increase) in pre-tax net income of \$1.3 million (2016 - \$2.8 million). The Company's private investments do not have an immediate market. An 10% increase in the potential value of the private investment could increase (decrease) in pre-tax net income of \$49,160.

(b) Credit risk

Credit risk is attributable to cash and cash equivalents and other receivable. The Company's other receivables are current and cash and cash equivalents are held with reputable financial institutions. The carrying value of other receivables and cash and cash equivalents represents the Company's maximum exposure to credit risk.

(c) Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents. The Company's cash and cash equivalents are available within one year or are available on demand. There are adequate resources to meet any obligations as they fall due and mature within a year.

The Company's Board of Directors reviews and approves any material transactions out of the ordinary course of business including acquisitions or other major investments. Management believes that the risk associated with liquidity is low.

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont'd)

Risk management (Cont'd)

(d) Foreign exchange risk

Foreign currency exchange risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate as a result of changes in foreign exchange rates. The Company currently has financial instruments denominated in U.S. dollars, Singapore dollars and Hong Kong dollars.

The following assets were denominated in foreign currencies presented in Canadian dollars as of:

| December 31, 2017 | | | |
|---|-------------------|----------------------|-------------------|
| | US dollars | Singapore dollars | Hong Kong dollars |
| Cash and cash equivalents | \$ 365,258 | \$ 2,523 | \$ 12,692 |
| Marketable securities | - | - | - |
| Investment in shares of associate | - | 13,424,551 | - |
| Investment in shares of private company | 491,595 | - | - |
| | <u>\$ 856,853</u> | <u>\$ 13,427,074</u> | <u>\$ 12,692</u> |
| December 31, 2016 | | | |
| | US dollars | Singapore dollars | Hong Kong dollars |
| Cash and cash equivalents | \$ 4,414 | \$ 11,205 | \$ 21,974 |
| Marketable securities | - | - | - |
| Investment in shares of associate | - | 27,553,284 | - |
| | <u>\$ 4,414</u> | <u>\$ 27,564,489</u> | <u>\$ 21,974</u> |

A fluctuation of 10% provided as an indicative range in currency movement, on financial instruments that are denominated in foreign currencies other than Canadian dollars, with, all other things being equal, have an effect on the after-tax net income and other comprehensive income of approximately \$1.4 million (2016 - \$2.8 million).

(e) Concentration risk

The Company is exposed to the possible risk inherent in the concentration of the investment portfolio in a small number of industries or investment sectors. As at December 31, 2017 and 2016, the percentages of the Company's investment in each industry sector were as follows:

| Sector | As a % of Total Investments | |
|-----------------------|-----------------------------|-------------------|
| | December 31, 2017 | December 31, 2016 |
| Media / Entertainment | 99.9 | 99.4 |
| Other | 0.1 | 0.6 |
| Total | <u>100.0</u> | <u>100.0</u> |

15. COMMITMENTS

The Company has entered into an operating lease agreement for its business premises in Hong Kong with rental payments of HK\$116,280, or \$19,767 per month. The lease will expire on November 15, 2018 subject to renewal. In addition to the monthly rental payment, the Company is responsible for the proportionate share of common area costs and property taxes.