



SPIN MASTER CORP.
2016
ANNUAL REPORT

GROWTH STRATEGIES

INNOVATE ACROSS THE PORTFOLIO OF BRANDS AND BUSINESS SEGMENTS



- Leverage competitive strengths to build a robust pipeline in all business segments
- Continue to focus on strategic brand building
- Continue to invest in advanced technology and entertainment licenses
- Expand capability and product offering in digital mobile gaming

DEVELOP EVERGREEN GLOBAL ENTERTAINMENT PROPERTIES



- Capitalize on success of current entertainment properties
- Develop at least one new show per year
- Strategically relaunch properties to capitalize on value of owned content library

INCREASE SALES IN INTERNATIONAL DEVELOPING AND EMERGING MARKETS



- Optimize international distribution network
- Strategically tailor product offering to local international markets
- Increase proportion of sales outside of North America to 35-40% in the medium term

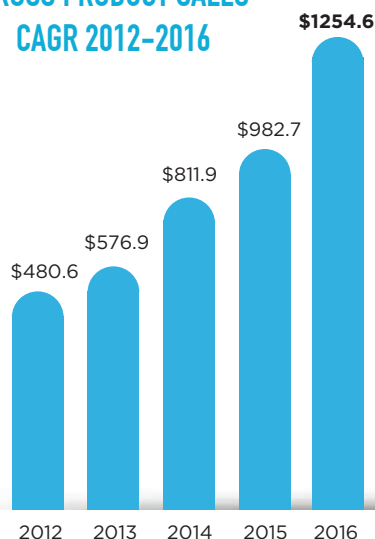
LEVERAGE GLOBAL PLATFORM THROUGH STRATEGIC ACQUISITIONS

- Fragmented industry with opportunities for consolidation
- Strong balance sheet with financial flexibility

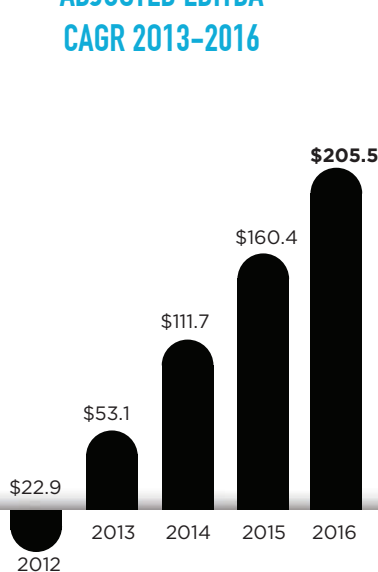


FINANCIAL INFORMATION

+27.1%
GROSS PRODUCT SALES¹
CAGR 2012-2016



+57.0%
ADJUSTED EBITDA¹
CAGR 2013-2016



+73.8%
ADJUSTED NET INCOME¹
CAGR 2013-2016



¹Non-IFRS term. Non-IFRS measures do not have any standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and are therefore unlikely to be comparable to similar measures presented by other issuers. Please refer to the section entitled "Non-IFRS Financial Measures" in the Management Discussion and Analysis for a discussion of the definition, components and uses of such non-IFRS measures, as well as a reconciliation of such non-IFRS measures to IFRS measures (where a comparable IFRS measure exists).

LETTER TO SHAREHOLDERS

2016 was an outstanding year for Spin Master. In our first full year as a public company, we delivered strong shareholder returns and operating performance, achieved major milestones under each of our four key growth strategies, and *Hatchimals* was one of the most successful product launches in the history of our company.

In 2015, we became a publicly-traded company because we believed that access to capital markets would be the best way to accelerate our growth and further establish Spin Master as one of the world's leading children's entertainment companies. In 2016, we completed four strategic acquisitions that, in combination with our internal growth strategies, significantly advanced the realization of that vision. We are confident that there will be more exciting developments in 2017 and beyond.

We are very pleased with our financial results in 2016. We reported Gross Product Sales¹ of \$1,254.7 million, up 27.7% from 2015. Over the past 10 years, our Gross Product Sales¹ have increased at a compound annual growth rate of 14.0%. In 2016, we also reported significant year-over-year increases in Revenue (up 31.3%), Gross Profit (up 30.0%), Adjusted EBITDA¹ (up 28.1%) and Adjusted Net Income¹ (up 21.8%). Free Cash Flow¹ increased from \$67.2 million in 2015 to \$118.7 million in 2016. Our growth is grounded in four clearly-defined strategies: to innovate our core portfolio of products, create successful global entertainment properties, increase our penetration in international markets, and make strategic, accretive acquisitions. We're sticking to them and they are working.

When we combine our strengths with those of our partners – including inventors, retailers, licensors, broadcasters, and animation studios – we create SIGNIFICANT value

Here's what we did in 2016 to advance each of our growth strategies and deliver these outstanding financial results:

INNOVATION

Innovation is at the core of who we are. The children's entertainment industry is dynamic, and continuous product development remains crucial to our long-term success. Our internal 36-month brand innovation process facilitates the identification of market opportunities that we capitalize on through product development and acquisitions. We never stop trying to infuse innovation into our brands, entertainment and products.

Our biggest innovation-led success of 2016 was unquestionably the launch of *Hatchimals*, which was the direct result of Spin Master's focus on both innovation and marketing. *Hatchimals*, which utilizes patented state-of-the-art interactive robotics technology, was developed internally through our global R&D team and was enhanced by our inventor network. Consumer demand for *Hatchimals* exploded globally following our innovative "*Hatchimals* Day" launch on October 7, far exceeding our expectations. Despite the best efforts of our entire team, we were not able to meet the extraordinary demand. Given our initial success, we are continuing to build the *Hatchimals* line for 2017 and beyond.

We also continued to build more established brands including *PAW Patrol*, *Air Hogs* and *Zoomer* in 2016 by leveraging our global sales and marketing infrastructure and delivering state-of-the-art new products. These included *Air Hogs Thunder Trax* (a ground and water based RC vehicle) and innovative *Zoomer* products such as *Meowzies*, *Hedgies*, *Chimp* and *Kitty*. There were new product launches in 2016 for *Bunchems*, which has been very successful particularly in Canada and Europe and *Secret Life of Pets*.

Our innovation pipeline remains very strong across all of our business segments as we grow existing brands and plan our new product offerings.

DEVELOP EVERGREEN GLOBAL ENTERTAINMENT PROPERTIES

We believe we can maximize the value of our brands by developing television franchises that are fully integrated with our toy business. The global success of *PAW Patrol* highlights this strategy and has established Spin Master as a major player in the Pre-School segment. *PAW Patrol* is on air in over 160 countries and territories and is on many of the most popular channels in our key markets. Three seasons of *PAW Patrol* have aired to date, and three more are either about to air or are in development. We are continuing to invest in keeping *PAW Patrol* content fresh with new characters and themes in order to increase the longevity of the franchise. *PAW Patrol* keeps generating high ratings, crosses many cultural boundaries, and has strong support from Nickelodeon and our other partners globally, which is allowing us to build deep awareness with consumers.

Our goal is to repeat the success of *PAW Patrol* by launching at least one new entertainment property each year. In 2016, we launched Season 1 of *Rusty Rivets* which began airing on Nickelodeon in November and has been well received. Inspired by the DIY culture of the “maker” movement, *Rusty Rivets* fuels pre-schoolers’ confidence and creativity with a strong focus on inventing, creating and problem solving. We are now focused on the *Rusty Rivets* toy launch in North America in 2017, with a rollout in Europe and other markets in 2018. The global success of *PAW Patrol* and *Rusty Rivets* has strengthened our relationship with Nickelodeon and paved the way for future television franchises.

Looking ahead, we have a number of other exciting entertainment properties under development, including the relaunch of *Bakugan*, a global success from 2007 to early 2012.

INTERNATIONAL EXPANSION

We are beginning to achieve our objective of significantly increasing Spin Master’s scale outside North America. We generated international Gross Product Sales¹ of \$407.3 million in 2016, which represented 32.5% of our overall sales. By comparison, Gross Product Sales¹ outside North America were \$290.5 million in 2015, or 30% of the total. We are making solid progress toward our medium-term goal of increasing our international sales to 35-40% of our total sales.

Europe was a particular source of strength for Spin Master in 2016, with Gross Product Sales¹ rising 47.5% over 2015. We entered new markets across the continent, expanded our sales and distribution capabilities, and boosted our product offerings through the Cardinal and Editrice Giochi (EG Games) acquisitions. More distribution channels are opening up for us across Europe on a regular basis, and our products are well supported by retailers. Our success in Europe and elsewhere internationally can be attributed to a number of factors:

- Reaching Critical Mass: The size of our business in each market is such that we can now build meaningful brand campaigns and support for our new product launches.
- Economies of Scale: As we grow, our media investments become more efficient driving a stronger return on investment.
- Culture: Spin Master is seen as a progressive, fun and forward looking company. We have built a reputation on strong local partnerships, product innovation and creative marketing. Our customers are responding well and this is creating more opportunities.

In 2016 we opened offices in Central Eastern Europe covering Poland, Romania, Czech Republic, Hungary and Slovakia as well as an office in Australia.

ACQUISITIONS

Each of our four acquisitions in 2016 provided clear strategic benefits for Spin Master:

- EG Games brought us some of Italy's best-known board games including *Risiko* and *Scarabeo* and positioned us for further growth in our games business across Europe.
- *Etch A Sketch* is an iconic toy brand that has sold more than 150 million units, but has received minimal investment for some time. *Etch A Sketch* continues to be a focus of innovation in the Activities business segment, and we will see new products evolving from this acquisition in the next few years, much as we did with *Meccano*.
- The acquisition of the Toca Boca and Sago Mini companies established us in the mobile digital app business – a space that we believe will be increasingly important in the years ahead. Toca Boca and Sago Mini are mobile digital app developers that emphasize children's natural sense of curiosity, experimentation, and self-expression. Toca Boca focuses on kids aged 3-9, while Sago Mini focuses on the Pre-School age group of 2-5 years. Combined, they have over 150 million downloads and more than 15 million monthly active users globally. Kids are consuming more content on mobile devices today than ever before, and we want to be where kids are. Our vision is to take our proven capability in toys and entertainment and combine it with Toca Boca and Sago Mini's content and mobile digital capabilities to provide an end-to-end experience for kids.
- The Swimways acquisition gives us an immediate leadership position in the large and growing Outdoor category. The acquisition is a beachhead for our new Outdoor business segment and we see the Outdoor category as primed for innovation and other potential acquisitions. Swimways also gives us an experienced and proven senior management team and consistent financial performance to build on. As with our acquisition of Cardinal in 2015, we are very pleased that the previous owners and management of Swimways have chosen to stay on with Spin Master and build the business further. We believe our entrepreneurial style and willingness to work with successful entrepreneurs is a competitive advantage for us.

Buying these businesses and brands is only the start. We expect these transactions to drive significant earnings growth in the years ahead - not just from innovation, but also from leveraging our international platform. One example of how this process works is Cardinal, which was primarily a North American business when we acquired it. We have used Spin Master's global distribution network, along with the distribution network brought to us through the EG Games acquisition, to significantly expand global sales of Cardinal games in 2016.

It is also important to note that we recently entered into an agreement with lenders that increased the size of our credit facility from US\$280 million to US\$510 million. This increase provides Spin Master with stronger liquidity to pursue both organic growth and further strategic acquisitions.

LOOKING AHEAD

We expect 2017 to be another exciting year for Spin Master. Fundamentals in the global toy industry remain positive and we will continue to execute on our core growth strategies.

We have many innovative brands and entertainment properties coming to market in 2017 – as is further detailed in our online 2016 Annual Report and earnings releases, available at www.spinmaster.com/investor-relations.php.

We plan to leverage our global platform to expand sales in Europe and internationally, enhanced by our new offices in Australia and Central Eastern Europe.

Spin Master's size, scale and strong balance sheet positions us to make more quality acquisitions and add value under the Spin Master umbrella. We'll always remain disciplined and focused on transactions that drive strong returns for shareholders.

On behalf of the board and management team, we thank you for your support of Spin Master as we continue our efforts to build one of the world's great children's entertainment companies.



Anton Rabie
Chair & Co-CEO



Ronnen Harary
Director & Co-CEO



John Cassaday
Lead Director



2016 Annual Report

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SPIN MASTER CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

For the three months and twelve months ended December 31, 2016

The following Management's Discussion and Analysis ("MD&A") for Spin Master Corp. ("Spin Master" or the "Company") is dated March 22, 2017 and provides information concerning the Company's financial condition and financial performance for the year ended December 31, 2016, and the three months ended December 31, 2016 ("fourth quarter", "the quarter", "Q4"). This MD&A should be read in conjunction with the Company's audited Consolidated Financial Statements ("financial statements") and accompanying notes as at December 31, 2016 and its Annual Information Form. Additional information relating to the Company can be found under the company's profile on SEDAR at www.sedar.com.

Some of the information contained in this MD&A contains forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements" and "Financial Risk Management" and "Risks Relating to Spin Master's Business" for a discussion of the uncertainties, risks and assumptions associated with those statements. Actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those described in "Risks Relating to Spin Master's Business" and elsewhere in this MD&A.

BASIS OF PRESENTATION

The audited consolidated financial statements and accompanying notes of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). However, certain financial measures contained in this MD&A are non-IFRS measures and are discussed further at "Non-IFRS Financial Measures". All references to "\$" and "dollars" refer to U.S. dollars, unless otherwise indicated. Certain totals, subtotals and percentages throughout this MD&A may not reconcile due to rounding.

OVERVIEW

Spin Master is a leading global children's entertainment company that creates, designs, manufactures and markets a diversified portfolio of innovative toys, games, products and entertainment properties. The Company is driven by a desire to challenge and expand traditional play patterns through the creation of innovative products, entertainment and digital content.

Spin Master has successfully increased its revenue from \$715,650 in 2014 to \$1,154,454 in 2016. Over the same period, Gross Product Sales (a non-IFRS measure) have increased from \$811,895 to \$1,254,558, a 24.3% compound annual growth rate. The Company's Gross Product Sales have grown at a 14.0% compound annual growth rate over the past 10 years. Additionally, the Company has demonstrated the ability to effectively manage costs and increase margins, generating gross profit of \$596,742 in 2016 (representing 51.7% of revenue) and Adjusted EBITDA (a non-IFRS measure) of \$205,510, or 17.8% of revenue, in 2016.

Spin Master's principal strategies to drive the Company's continued growth, both organically and through acquisitions include:

- Innovation across the portfolio and expanding current business segments;
- Developing evergreen global entertainment properties;
- Increasing international sales in developed and emerging markets; and
- Leveraging its global platform through strategic acquisitions.

Spin Master's business is separated into 3 geographic segments: North America, comprised of the U.S. and Canada; Europe, comprised of Spin Master's subsidiaries in the UK, France, Italy, the Netherlands, Germany, Austria and Switzerland; and the Rest of World, comprised of Spin Master's subsidiaries in Mexico and all other areas of the world serviced by Spin Master's 3rd party distribution network.

Spin Master's diversified portfolio of children's products, brands and entertainment properties is reported under five business segments: (1) Activities, Games & Puzzles and Fun Furniture; (2) Remote Control and Interactive Characters; (3) Boys Action and High-Tech Construction; (4) Pre-School and Girls and (5) Outdoor.

Selected Financial Information

The following table provides selected historical information and other data of the Company which should be read in conjunction with the audited consolidated financial statements of the Company.

(in \$ thousands USD, except percentages)

	Fiscal Years Ended, December 31,		
	2016	2015	2014
Earnings Results			
Gross Product Sales (1) By Segment			
Activities, Games & Puzzles And Fun Furniture	337,768	231,433	190,542
Remote Control And Interactive Characters	282,777	233,294	268,612
Boys Action And High Tech Construction	154,454	192,304	191,821
Pre School and Girls	460,484	325,662	160,920
Outdoor	19,075	—	—
Gross Product Sales (1)	1,254,558	982,693	811,895
Other revenue	47,940	19,217	8,778
Total Gross Sales (1)	1,302,498	1,001,910	820,673
Sales Allowances (1)	148,044	122,504	105,023
Revenue	1,154,454	879,406	715,650
Cost of goods sold	557,712	420,486	357,528
Gross profit	596,742	458,920	358,122
<i>Gross Margin</i>	<i>51.7%</i>	<i>52.2%</i>	<i>50.0%</i>
Selling, marketing, distribution and product development	243,689	183,791	139,544
Administrative	201,008	195,909	124,443
Other expenses (income)	35	(13,429)	911
Foreign exchange loss (gain)	5,530	6,477	4,905
Finance costs	8,601	6,539	2,829
Net income (loss) before income tax expense	137,879	79,633	85,490
Income tax expense (recovery)	38,364	32,559	23,276
Net income (loss)	99,515	47,074	62,214
Net Income Attributable to:			
Owners of the Company	99,515	43,213	51,896
Non-Controlling Interests	—	3,861	10,318
	99,515	47,074	62,214

1) See "Non-IFRS Financial Measures"

Selected Financial Information (Continued)

(In thousands of United States dollars, except for EPS)

Net Earnings from operations	Fiscal Years Ended, December		
	2016	2015	2014
Net Earnings from operations attributable of Owners of the Company	99,515	43,213	51,896
Earnings per share from operations attributable to common shareholders (3)			
Basic EPS	\$ 0.99	\$ 0.48	\$ 0.61
Diluted EPS	\$ 0.99	\$ 0.48	\$ 0.61
Other Financial Data			
EBITDA (1)	176,969	109,049	106,062
Adjusted EBITDA(1)	205,510	160,449	111,775
<i>Adjusted EBITDA Margin</i>	17.8%	18.2%	15.6%
Adjusted Net Income (1)	120,115	98,609	66,372
Adjusted Net Income attributable to Owners of the Company	120,115	94,748	56,054
Adjusted Earnings Per Share (3)			
Adjusted Basic EPS	\$ 1.19	\$ 1.04	\$ 0.78
Adjusted Diluted EPS	\$ 1.19	\$ 1.04	\$ 0.78
Balance Sheet & Cash Flow Data			
Cash and cash equivalents	99,416	45,713	101,292
Total assets	753,432	388,283	350,785
Total non- current liabilities	18,584	56,749	2,205
Borrowings	158,145	50,310	839
Preferred shares	—	—	257,776
Loans from related parties	—	40	25
Total debt	158,145	50,350	258,640
Net Debt (2)	58,729	4,637	157,348
Total shareholders' equity	325,679	156,319	(66,225)
Cash from (used in) operations	73,038	55,639	123,966
Cash from (used in) investing	(172,273)	(93,573)	(26,221)
Cash from (used in) financing	155,467	(11,541)	(23,141)

1) See "Non-IFRS Financial Measures"

2) Net debt is total debt less cash and cash equivalents

3) Amounts per share give effect on a retrospective basis following the reorganization that occurred prior to the offering of July 30, 2015

Highlights for the three month period ended December 31, 2016:

(In \$ thousands, except per share)

- Revenue increased by 30.9% from \$258,408 for the same period in 2015 to \$338,377 in 2016.
- Gross profit as a percentage of revenue for the three months ended December 31, 2016 was 50.8%, a decrease of 0.1% from 50.9% for the same period in 2015.
- Net Income was \$2,727 or \$0.03 per share compared to a loss of \$13,260 or \$0.13 per share for the same period in 2015.
- Adjusted EBITDA (a non-IFRS measure) was \$22,888 or 6.8% of revenue, compared to \$13,646 or 5.3% of revenue for the same period in 2015.
- On December 21, 2016 entered into an agreement with a syndicate of lenders to increase, amend and extend its credit agreement. Under the agreement, the Company's revolving credit facility and term credit facility were restructured into committed single five-year revolving facility (the "Credit Facility"), and the total capital available was increased from \$280 million to \$510 million. The new maturity date of the Credit Facility is December 2021.

Highlights for the twelve month period ended December 31, 2016:

(In \$ thousands, except per share)

- Revenue increased by 31.3% to \$1,154,454 from \$879,406 for the same period in 2015.
- Gross profit as a percentage of revenue was 51.7%, a decrease of 0.5% from 52.2% for the same period in 2015.
- Net Income was \$99,515 or \$0.99 per share compared to \$47,074 or \$0.48 per share for the same period in 2015.
- Adjusted EBITDA was \$205,510 or 17.8% of revenue, compared to \$160,449 or 18.2% of revenue during the same period in 2015.
- On January 27, 2016, the Company announced that it had purchased the library of board games owned by Editrice Giochi SRL. The purchase includes the *Editrice Giochi* brand, which has been in the Italian market for more than 70 years. The acquisition enables Spin Master to expand its selection of games and licensed products in the Italian market with such games as *Risiko*, and *Scarabeo*. The acquisition closed on March 11, 2016.
- On February 11, 2016, the Company announced that it had acquired the *Etch A Sketch* and *Doodle Sketch* brands from The Ohio Art Company. The acquisition included all brand-related patents, trademarks, tooling and inventory for the brands.
- On May 2, 2016, the Company acquired the Toca Boca and Sago Mini companies from the Bonnier Group of Sweden. With offices in Stockholm, San Francisco and New York, Toca Boca is a play studio that makes digital toys for kids aged 3-9. Toca Boca apps focus on stimulating kids' imagination so that they can play and have fun in a safe digital environment with no in-app purchases or external advertising. Located in Toronto, Sago Mini creates mobile apps for kids aged 2-5 that focus on the pre-school segment. Toca Boca and Sago Mini both emphasize children's natural sense of curiosity, experimentation and self-expression.
- On June 6, 2016, the Company closed the public offering of 4,900,000 Subordinate Voting Shares of the Company, at a price of 26.60 Canadian Dollars ("C\$") per Subordinate Voting Share (the "Offering"). The Offering included a treasury offering of 2,450,000 Subordinate Voting Shares by the Company for gross proceeds of approximately C\$65 million (the "Treasury Offering") and a secondary offering of 2,450,000 Subordinate Voting Shares, indirectly, beneficially owned by the founders of the Company for gross proceeds of approximately C\$65 million. The Company used the net proceeds of the Treasury Offering to reduce indebtedness under its Credit Facility.

- On August 2, 2016, the Company acquired Swimways Corporation ("Swimways"), for US\$85 million in cash on closing, less an escrow for possible adjustments, plus up to US\$8.5 million payable over four years based on Swimways' sales growth, if any. The transaction was financed through Spin Master's Credit Facility. Swimways, headquartered in Virginia Beach, VA, with an office in Guangzhou, China, a manufacturing and distribution facility in Tarboro, NC, has a portfolio of toys, games and sporting goods for the pool, beach and backyard.

FINANCIAL PERFORMANCE

For the three and twelve months ended December 31, 2016:

Consolidated Results

The following tables provide a summary of Spin Master's consolidated results for the three and twelve month ended December 31, 2016 and 2015.

Three Months Ended December 31

	2016	2015	\$ Change	% Change
(All amounts in US\$ 000's)				
Revenue	338,377	258,408	79,969	30.9 %
Cost of sales	(166,373)	(126,781)	(39,592)	31.2 %
Gross profit	172,004	131,627	40,377	30.7 %
Selling, marketing, distribution and product	(104,551)	(88,232)	(16,319)	18.5 %
Administrative	(55,417)	(48,476)	(6,941)	14.3 %
Other income	223	118	105	89.0 %
Foreign exchange gains/(losses)	(6,634)	(529)	(6,105)	1,154.1 %
Finance costs	(2,414)	(4,925)	2,511	(51.0)%
Net income before tax	3,211	(10,417)	13,628	(130.8)%
Income tax (expense)	(484)	(2,843)	2,359	(83.0)%
Net income	2,727	(13,260)	15,987	
Net Income Attributable to:				
Owners of the Company	2,727	(13,260)	15,987	
Non-Controlling Interests	—	—	—	
	2,727	(13,260)	15,987	

Twelve Months Ended December 31

	2016	2015	\$ Change	% Change
(All amounts in US\$ 000's)				
Revenue	1,154,454	879,406	275,048	31.3 %
Cost of sales	(557,712)	(420,486)	(137,226)	32.6 %
Gross profit	596,742	458,920	137,822	30.0 %
Selling, marketing, distribution and product development	(243,689)	(183,791)	(59,898)	32.6 %
Administrative	(201,008)	(195,909)	(5,099)	2.6 %
Other income	(35)	13,429	(13,464)	100.3 %
Foreign exchange gains/(losses)	(5,530)	(6,477)	947	(14.6)%
Finance costs	(8,601)	(6,539)	(2,062)	31.5 %
Net income before tax	137,879	79,633	58,246	73.1 %
Income tax (expense)	(38,364)	(32,559)	(5,805)	(17.8)%
Net income	99,515	47,074	52,441	111.4 %
Net Income Attributable to:				
Owners of the Company	99,515	44,064	55,451	125.8 %
Non-Controlling Interests	—	3,861	(3,861)	
	99,515	63,207	52,441	111.4 %

Revenue

For the Three Months ended December 31, 2016

The following table provides a summary of Spin Master's consolidated sales and segmented breakdown for the three months ended December 31, 2016 and 2015:

(All amounts in US\$ 000's)	Three Months Ended December 31			
	2016	2015	\$ Change	% Change
Activities, Games & Puzzles and Fun Furniture	109,512	100,252	9,260	9.2 %
Remote Control and Interactive Characters	92,566	50,037	42,529	85.0 %
Boys Action and High-Tech Construction	34,765	48,068	(13,303)	(27.7)%
Pre-School and Girls	125,133	89,138	35,995	40.4 %
Outdoor	14,202	—	14,202	
Total Gross Product Sales (1)	376,178	287,495	88,683	30.8 %
Other Revenue	12,281	8,048	4,233	52.6 %
Total Gross Sales (1)	388,459	295,543	92,916	31.4 %
Sales Allowances (1)	50,082	37,135	12,947	34.9 %
Revenue	338,377	258,408	79,969	30.9 %

Total Gross Product Sales increased by \$88,683, or 30.8%, to \$376,178 with an unfavorable impact from changes in currency exchange rates of \$8,800.

Gross Product Sales in the Activities, Games & Puzzles and Fun Furniture increased by \$9,260, or 9.2% to \$109,512, driven by Spin Master's games portfolio, *Pottery Cool* and *Bunchems*.

Gross Product Sales in the Remote Control and Interactive Characters segment increased by \$42,529 or 85.0% to \$92,566, driven by sales of *Hatchimals*.

Gross Product Sales in the Boys Action and High-Tech Construction segment decreased by \$13,303 or 27.7% to \$34,765, due lower sales of *How to Train Your Dragon*, *Teenage Mutant Ninja Turtles* and *Star Wars* related toys and *Spy Gear* and *Meccano*, partially offset by sales of *Secret Life of Pets* and *Angry Birds* licensed toys and *Tech Deck*.

Gross Product Sales in the Pre-School and Girls segment increased by \$35,995 or 40.4% to \$125,133, driven by sales of *Paw Patrol*.

Gross Product Sales in the Outdoor segment were related to the sales of *Swimways* products, which the company acquired on August 2, 2016.

Other Revenue increased by \$4,233 or 52.6% to \$12,281, primarily driven by increased licensing and merchandising royalties' income from products marketed by third parties using Spin Master's owned intellectual property and inclusion of app revenues related to the acquisition of *Toca Boca* and *Sago Mini*.

Sales Allowances increased by \$12,947 or 34.9% to \$50,082, primarily due to increases in Gross Product Sales and product and market mix.

The following table provides a summary of Spin Master's consolidated Gross Product Sales by key geographic segment for the three month ended December 31, 2016 and 2015:

Three Months Ended December 31

(All amounts in US\$ 000's)	2016	2015	\$ Change	% Change
North America	245,363	201,200	44,163	21.9%
Europe	93,949	58,952	34,997	59.4%
Rest of World	36,866	27,343	9,523	34.8%
Total Gross Product Sales (1)	376,178	287,495	88,683	30.8%

(1) Non-IFRS measure. See "Non-IFRS Financial measures".

Gross Product Sales in North America increased by \$44,163 or 21.9% to \$245,363, driven by sales of *Paw Patrol*, *Hatchimals* and *Swimways* products more than offsetting declines in *Meccano*, *Kinetic Sand* and *Star Wars* products.

Gross Product Sales in Europe increased by \$34,997 or 59.4% to \$93,949, with an unfavourable impact from changes in currency exchange rates of \$6,085. Growth was primarily driven by sales of *Paw Patrol* and *Hatchimals* in Italy, France and the UK.

Gross Product Sales in the Rest of World region increased by \$9,523 or 34.8% to \$36,866, with an unfavourable impact from changes in currency exchange rates of \$2,725. Growth was primarily driven by increases in *Paw Patrol* and *Hatchimals* in both Mexico and the International 3rd party business.

For the Twelve Months ended December 31, 2016

The following table provides a summary of Spin Master's consolidated sales and segmented breakdown for the twelve months ended December 31, 2016 and 2015:

Twelve Months Ended December 31

(All amounts in US\$ 000's)	2016	2015	\$ Change	% Change
Activities, Games & Puzzles and Fun Furniture	337,768	231,433	106,335	45.9 %
Remote Control and Interactive Characters	282,777	233,294	49,483	21.2 %
Boys Action and High-Tech Construction	154,454	192,304	(37,850)	(19.7)%
Pre-School and Girls	460,484	325,662	134,822	41.4 %
Outdoor	19,075	—	19,075	
Total Gross Product Sales (1)	1,254,558	982,693	271,865	27.7 %
Other Revenue	47,940	19,217	28,723	149.5 %
Total Gross Sales (1)	1,302,498	1,001,910	300,588	30.0 %
Sales Allowances (1)	148,044	122,504	25,540	20.8 %
Revenue	1,154,454	879,406	275,048	31.3 %

(1) Non-IFRS measure. See "Non-IFRS Financial measures".

Gross Product Sales in the Activities, Games & Puzzles and Fun Furniture segment increased by \$106,335 or 45.9% to \$337,768, primarily driven *Cardinal* and *Bunchems* products.

Gross Product Sales in the Remote Control and Interactive Characters segment increased by \$49,483 or 21.2% to \$282,777 primarily due to sales of *Hatchimals* which offset declines in *Zoomer*, *Digi Birds* and *Air Hogs*.

Gross Product Sales in the Boys Action and High-Tech Construction segment decreased by \$37,850 or 19.7% to \$154,454 driven by declines in *Meccano*, *Star Wars* and *How to Train your Dragon* licensed products, partially offset by sales of *Secret Life of Pets* and *Angry Birds* licensed toys.

Gross Product Sales in the Pre-School and Girls segment increased by \$134,822 or 41.4% to \$460,484 driven by sales of *Paw Patrol* products, and the launch of *Brightlings*, offset by declines in *Flutterbye Flying Fairy*.

Gross Product Sales in the Outdoor segment were related to the sales of *Swimways*, which the company acquired on August 2, 2016.

Other Revenue increased by \$28,723 or 149.5%, to \$47,940 million, driven by increased television distribution income, higher royalty income from products marketed by third parties using Spin Master's owned intellectual property and app revenue from Toca Boca and Sago Mini.

Sales Allowances increased by \$25,540 or 20.8% to \$148,044, driven primarily by higher Gross Product Sales.

The following table provides a summary of Spin Master's consolidated Gross Product Sales by key geographic segment for the twelve months ended December 31, 2016:

Twelve Months Ended December 31				
(All amounts in US\$ 000's)	2016	2015	\$ Change	% Change
North America	847,278	692,242	155,036	22.4%
Europe	271,130	183,786	87,344	47.5%
Rest of World	136,150	106,665	29,485	27.6%
Total Gross Product Sales (1)	1,254,558	982,693	271,865	27.7%

(1) Non-IFRS measure. See "Non-IFRS Financial measures".

Gross Product Sales increased by \$271,865, or 27.7%, to \$1,254,558 with an unfavourable impact from changes in currency exchange rates of \$16,099.

Gross Product Sales in North America increased by \$155,036 or 22.4% to \$847,278 with an unfavorable impact from changes in currency exchange rates of \$484. Growth was driven primarily by increases in product sales of *Cardinal*, *Hatchimals*, *Paw Patrol*, *Swimways* and *Secret Life of Pets* products which more than offset declines in *Star Wars*, *Kinetic Sand* and *Meccano*.

Gross Product Sales in Europe increased by \$87,344 or 47.5% to \$271,130 with an unfavourable impact from changes in currency exchange rates of \$10,004. Growth was primarily driven by sales of *Paw Patrol*, *Hatchimals* and *Bunchems* in France, Italy and the UK, which more than offset declines in *Zoomer* and *How to Train Your Dragon* products.

Gross Product Sales in the Rest of World region increased by \$29,485 or 27.6% to \$136,150 with an unfavourable impact from changes in currency exchange rates of \$5,611. The increases were primarily driven by increases in *Paw Patrol*, *Hatchimals*, *Cardinal*, *Bunchems* and *Secret Life of Pets* products, which offset declines in *Meccano*, *Flutterbye Flying Fairies*, *Air Hogs*, *Zoomer* and *How to train your Dragon* products sales.

Gross Profit

Three Months Ended December 31				
	2016	2015	\$ Change	% Change
Gross Profit	172,004	131,627	40,377	30.7%
Gross Profit as % of Revenue	50.8%	50.9%		

For the three months ended December 31, 2016, gross profit increased by \$40,377 or 30.7% to \$172,004. As a percentage of revenue, gross profit decreased from 50.9% to 50.8%.

Twelve Months Ended December 31				
	2016	2015	\$ Change	% Change
Gross Profit	596,742	458,920	137,822	30.0%
Gross Profit as % of Revenue	51.7%	52.2%		

For the twelve months ended December 31, 2016, gross profit increased by \$137,822 or 30.0% to \$596,742. As a percentage of revenue, gross profit decreased from 52.2 % to 51.7% primarily due to the inclusion of lower gross margin Cardinal products and foreign exchange partially offset by increased licensing and merchandising revenue and product mix.

Selling, Marketing, Distribution and Product Development Expenses

Three Months Ended December 31

	2016	2015	\$ Change	% Change
Marketing Expenses	61,879	57,383	4,496	7.8%
Marketing Expenses as a % of Revenue	18.3%	22.2%		
Product Development Expenses	7,147	4,628	2,519	54.4%
Product Development Expenses as a % of	2.1%	1.8%		
Selling Expenses	22,807	17,750	5,057	28.5%
Selling Expenses as a % of Revenue	6.7%	6.9%		
Distribution Expenses	12,718	8,471	4,247	50.1%
Distribution Expenses as a % of Revenue	3.8%	3.3%		

Marketing expenses increased by \$4,496 or 7.8%, to \$61,879, primarily as a result of increased media and promotion spend behind *Hatchimals*, *Paw Patrol*, *Air Hogs* and *Zoomer* in Europe and North America.

Product development expenses increased by \$2,519 or 54.4%, to \$7,147, related to the timing of projects primarily in the Remote Control and Interactive Characters, Activities, Games & Puzzles and Fun Furniture and Outdoor segment.

Selling expenses increased by \$5,057, or 28.5%, to \$22,807, driven by sales of *Hatchimals* and *Paw Patrol*. Selling expenses as a percentage of revenue was consistent with 2015.

Distribution expenses increased by \$4,247 or 50.1% to \$12,718, driven by increased volume, inventory storage costs due to increased inventory levels associated with growth in Europe and acquisition of Swimways, which was acquired in August 2016.

Twelve Months Ended December 31

	2016	2015	\$ Change	% Change
Marketing Expenses	112,339	91,152	21,187	23.2%
Marketing Expenses as a % of Revenue	9.7%	10.4%		
Product Development Expenses	22,017	15,389	6,628	43.1%
Product Development Expenses as a % of	1.9%	1.7%		
Selling Expenses	77,102	55,604	21,498	38.7%
Selling Expenses as a % of Revenue	6.7%	6.3%		
Distribution Expenses	32,231	21,646	10,585	48.9%
Distribution Expenses as a % of Revenue	2.8%	2.5%		

Marketing expenses increased by \$21,187, or 23.2%, to \$112,339, primarily as a result of increased media spending to support *Paw Patrol*, *Hatchimals*, *Air Hogs* and *Secret Life of Pets* products, increased research and strategic marketing spend and marketing expenses from *Toca Boca* and *Sago Mini*, which was acquired in May 2016.

Product development expenses increased by \$6,628, or 43.1%, to \$22,017, primarily due to investments in the Remote Control and Interactive Characters, Girls and Pre School and Activities, Games & Puzzles and Fun Furniture segments.

Selling expenses increased by \$21,498, or 38.7%, to \$77,102, driven primarily by sales of Cardinal licensed products, *Paw Patrol*, *Angry Birds*, *Secret Life of Pets* and *Power Puff Girls* related products.

Distribution expenses increased by \$10,585, or 48.9%, to \$32,231, driven primarily by higher sales volumes, increased distribution expenses to support European growth and costs associated with acquisitions.

Administrative Expenses

For the three months ended December 31, 2016 compared to the same period in 2015, administrative expenses increased by \$6,941, or 14.3%, to \$55,417, primarily due to administrative expenses of acquired companies partially offset by lower share-based compensation expenses associated with equity participation agreements and the grants of restricted share units to employees upon the closing of the Company's initial public offering ("IPO") of subordinate voting shares in July 2015. Administrative expenses as a percentage of revenue decreased to 16.4% from 18.8% in the same period in 2015. Excluding the impact of share-based compensation, administrative expenses as a percentage of revenue decreased to 15.7% from 16.0% in 2015.

For the twelve months ended December 31, 2016 compared to the same period in 2015, administrative expenses increased by \$5,099, or 2.6%, to \$201,008, primarily due to increased expense in property and operations and professional fees incurred due to the Company's business combinations. Administrative expenses as a percentage of revenue decreased to 17.4% from 22.3% in the same period in 2015. Excluding the impact of share-based compensation, administrative expenses as a percentage of revenue decreased to 15.6% from 16.5% in 2015.

Finance Costs

For the three months ended December 31, 2016, finance costs decreased by \$2,511 to \$2,414 compared to the same period in 2015. The decrease was driven by \$2,992 of interest associated with the Company's settlement agreement with the CRA in relation to the previously disclosed transfer pricing matter in the fourth quarter of 2015, offset by higher interest as a result of increased borrowings on the Company's Credit Facility and accretion expense related to provisions for contingent consideration arrangements as part of the Toca Boca and Swimways acquisitions.

For the twelve months ended December 31, 2016 compared to the same period in 2015, Finance costs increased by \$2,062 to \$8,601 compared to the same period in 2015 for the reasons noted above in addition to the Cardinal acquisition.

Net Income

Net Income for the three months ended December 31, 2016 increased by \$15,987 to \$2,727 from a loss of \$13,260 for the same period in 2015 as a result of higher revenue, lower finance costs, lower interest and tax associated with the Company's settlement agreement with the CRA in relation to the previously disclosed transfer pricing matter in the fourth quarter of 2015, and lower income tax expense offset by higher administrative expenses and foreign exchange losses. Excluding share-based compensation expense, foreign exchange losses and other one time items, Adjusted Net Income (a non-IFRS measure, see "Non-IFRS financial measures") for the three months ended December 31, 2016 increased by \$2,656 to \$9,347 from \$6,691 for the same period in 2015.

Net Income for the twelve months ended December 31, 2016 increased by \$52,441 to \$99,515 from \$47,074 for the same period in 2015. Excluding share-based compensation expense, restructuring and foreign exchange gains, Adjusted Net Income for the twelve month ended December 31, 2016 increased by \$21,506 to \$120,115 from \$98,609 for the same period in 2015.

OUTLOOK

For 2017, excluding Swimways, Spin Master expects organic Gross Product Sales¹ growth to be at the upper end of the Company's mid to high single digit long term organic Gross Product Sales¹ growth target range. Including Swimways, Spin Master expects Gross Product Sales¹ growth in the low teens compared to 2016. From a seasonality perspective, excluding Swimways, Spin Master expects Gross Product Sales¹ in the first half of 2017, to be in line with the Company's historical seasonality of approximately 30% in the first half of the year and 70% in the second half of the year. Including Swimways, Gross Product Sales¹ is expected to be in the 31%-33% range in the first half of 2017 due to the seasonality of Swimways' Gross Product Sales profile. Adjusted EBITDA Margins¹ for 2017, excluding Swimways and Toca Boca, are expected to be slightly higher than 2016. Including Swimways and Toca Boca, Adjusted EBITDA Margins¹ are expected to be consistent with 2016.

(1) Non-IFRS measure. See "Non-IFRS Financial measures".

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table provides selected historical information and other data, which should be read in conjunction with the audited consolidated financial statements of the Company.

	<u>Three Months Ended</u>							
	<u>December 31, 2016</u>	<u>September 30, 2016</u>	<u>June 30, 2016</u>	<u>March 31, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>	<u>June 30, 2015</u>	<u>March 31, 2015</u>
<u>(All amounts in US\$ 000's , except per share)</u>								
Revenue	338,377	475,015	179,360	161,702	258,408	386,829	127,702	106,467
Net Income / (loss)	2,727	83,253	3,598	9,937	(13,260)	51,091	7,574	1,669
Net Income / (loss) attributable to - owners of the company	2,727	83,253	3,298	9,937	(13,260)	48,781	6,310	1,382
Earnings per share attributable to common shareholders of the company (2)								
Basic and Diluted EPS	\$ 0.03	\$ 0.82	\$ 0.04	\$ 0.10	\$ (0.13)	\$ 0.52	\$ 0.07	\$ 0.02
Adjusted EBITDA (1)	22,888	133,261	25,389	23,973	13,647	118,667	17,943	10,193
Adjusted EBITDA Margin (1)	6.8%	28.1%	14.2%	14.8%	5.3%	30.7%	14.1%	9.6%
Adjusted Net Income / (loss) (1)	9,347	87,482	11,698	11,588	6,691	80,410	8,134	3,374
Adjusted Net Income / (loss) attributable to - owners of the company (1)	9,347	87,482	11,698	11,588	6,691	78,100	6,870	3,087
Adjusted Earnings per share attributable to common shareholders of the company (2)								
Adjusted Basic and Diluted EPS	\$ 0.09	\$ 0.86	\$ 0.12	\$ 0.12	\$ 0.07	\$ 0.83	\$ 0.08	\$ 0.04
Free Cash Flow (1)	(3,881)	117,238	(11,026)	16,359	(6,260)	75,830	5,788	(8,210)

1) See "Non-IFRS Financial Measures" and

2) Amounts per share give effect on a retrospective basis following the Reorganization that occurred prior to the Offering

(see Seasonality risk in "Risks Relating to Spin Master's Business")

The following table provides reconciliations of Net Income to EBITDA, Adjusted EBITDA and Adjusted Net Income.

	Three Months Ended							
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
(All amounts in US\$ 000's, except per share)								
Net Income	2,727	83,253	3,598	9,937	(13,260)	51,092	7,574	1,669
Finance Costs	2,414	2,575	1,852	1,760	4,925	922	423	269
Depreciation and Amortization	8,173	9,419	7,526	5,371	5,887	5,173	6,700	5,116
Income Tax	484	32,319	1,056	4,505	2,843	26,407	2,600	709
EBITDA ⁽¹⁾	13,798	127,566	14,032	21,573	395	83,594	17,297	7,763
Restructuring (2)	65	827	275	656	891	1,716	560	361
Recovery of contingent liability (3)	(222)	—	—	—	(457)	—	—	—
Foreign exchange loss (gain) (4)	6,634	(129)	4,065	(5,040)	529	4,396	(75)	1,627
Offering Costs (5)	—	—	—	—	257	65	161	442
Share Based Compensation (6)	2,146	4,996	7,017	6,784	7,145	43,513	—	—
One time income from Transfer of Non Business Related Assets (7)	—	—	—	—	(73)	(9,617)	—	—
One time Service Fee income (8)	—	—	—	—	—	(5,000)	—	—
Impairment of Intangible Asset (9)	—	—	—	—	659	—	—	—
One time Legal Expense (10)	—	—	—	—	3,325	—	—	—
Fair Market Value adjustments (11)	—	—	—	—	975	—	—	—
Executive Compensation related to Acquisition (12)	467	—	—	—	—	—	—	—
Adjusted EBITDA (1)	22,888	133,260	25,389	23,973	13,646	118,667	17,943	10,193
Finance Costs	2,414	2,575	1,852	1,760	4,925	922	423	269
Depreciation and Amortization	8,173	9,419	7,526	5,371	5,887	5,173	6,700	5,116
Income Tax (13)	484	32,319	1,056	4,505	(6,643)	22,176	2,600	709
Tax Effect of Normalization Adjustments (14)	2,470	1,465	3,257	749	2,786	9,986	86	725
Adjusted Net Income (1)	9,347	87,482	11,698	11,588	6,691	80,410	8,134	3,374

Footnotes:

1) See "Non-IFRS Financial Measures".

2) 2016 restructuring related to changes in the Company's US operations. 2015 restructuring primarily related to changes to the Company's executive team.

3) A write off of contingent consideration related to a future earn-out provision associated with the acquisition of Spy Gear occurred as sales targets were not met to achieve the additional pay out.

4) Transaction gains and losses generated by the effect of foreign exchange recorded on assets and liabilities denominated in a currency that differs from the functional currency of the applicable entity are recorded as foreign exchange gain or loss in the period which they occur.

5) Offering Costs from the IPO are considered a one time expense and are not reflective of on going costs of the business.

6) Stock based compensation is related to expenses associated with subordinate voting shares granted to equity participants and restricted stock units granted to employees at the time of the IPO and share option expense.

7) One of the predecessor corporations to the Company owned assets which was non income producing and did not relate to the business of the Company. Accordingly, the assets were transferred to the principal shareholders prior to the closing of the IPO through dividends in kind at their current fair market value.

8) One time service fee income in connection with the acquisition of Cardinal and services provided to Cardinal prior to the closing of the transaction on October 2, 2015.

9) Impairment of Intangible asset related to Content Development.

10) One time legal expense related to an outstanding litigation matter in Q4 2015.

11) Amortization of Fair Market Value adjustments relating to acquisition of Cardinal in the fourth quarter of 2015.

12) Remuneration expense associated with contingent consideration for the Swimways acquisition.

13) Income tax expense /(recovery) and Finance Costs have been adjusted for 2015 to exclude Financial Impacts related to the settlement of certain tax matters as they are not reflective of ongoing costs of the business.

14) Tax effect of normalization adjustments (Footnotes 3-12). Normalization adjustments tax effected at the effective tax rate of the given period.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity is cash flow from operations. In addition, as at December 31, 2016, the Company had \$352 million available under its Credit Facility, which was amended and restated on December 20, 2016. Total capital available under the Credit Facility has increased from \$280 million to \$510 million and the maturity was extended to December 2021. Advances under the Credit Facility may be used for general corporate purposes including refinancing existing Indebtedness, funding working capital requirements, permitted acquisitions and permitted distributions.

Management believes that cash flows from its ongoing operations, plus cash on hand and availability under the Credit Facility provide sufficient liquidity to support ongoing operations over the next 12 months. Cash flows from operations could be negatively impacted by decreased demand for the Company's products, which may result from factors such as adverse economic conditions and changes in public and consumer preferences, the loss of confidence by the Company's principal customers in the Company and its product lines, or by increased costs associated with manufacturing and distribution of products. The Company's primary capital needs are related to inventory financing, accounts payable funding, debt servicing and capital expenditures for tooling, film production, and to funding strategic acquisitions. As a result of the seasonal nature of the toy and children's entertainment industries, working capital requirements are variable throughout the year. Working capital needs typically grow through the first three quarters as inventories are built-up for the peak sales periods for retailers in the fourth quarter. The Company's cash flows from operating activities are typically at their highest levels of the year in the fourth quarter.

The Company has separately financed \$1.7 million of the *Little Charmers* production costs. The financing of the production costs of *Little Charmers* is directly related to the expected receipt of eligible government tax credits. The Company intends to continue to use this type of borrowing to fund the costs of future television productions.

The following table provides a summary of Spin Master's consolidated cash flows for three and twelve months ended December 31, 2016 and 2015.

(All amounts in US\$ 000's)

	Three months ended December 31		
	2016	2015	\$ Change
Net cash flows generated by (used in) operating activities	\$ 62,310	\$ 65,124	\$ (2,814)
Net cash flows used in investing activities	\$ (4,554)	\$ (60,834)	\$ 56,280
Net cash flows generated by (used in) financing activities	\$ (5,260)	\$ (10,084)	\$ 4,824
Net increase (decrease) in cash	\$ 52,496	\$ (5,794)	\$ 58,290
Effect of exchange rate changes on cash	\$ (2,607)	\$ (4,075)	\$ 1,468
Cash at beginning of period	\$ 49,527	\$ 55,582	\$ (6,055)
Cash at end of period	\$ 99,416	\$ 45,713	\$ 53,703

(All amounts in US\$ 000's)

	Twelve months ended December 31		
	2016	2015	\$ Change
Net cash flows generated by (used in) operating activities	\$ 73,038	\$ 55,640	\$ 17,398
Net cash flows used in investing activities	\$ (172,273)	\$ (93,573)	\$ (78,700)
Net cash flows generated by (used in) financing activities	\$ 155,467	\$ (11,541)	\$ 167,008
Net increase (decrease) in cash	\$ 56,232	\$ (49,474)	\$ 105,706
Effect of exchange rate changes on cash	\$ (2,529)	\$ (6,105)	\$ 3,576
Cash at beginning of period	\$ 45,713	\$ 101,292	\$ (55,579)
Cash at end of period	\$ 99,416	\$ 45,713	\$ 53,703

Capital and Investment Framework

Over the long term, the Company plans to use its free cash flows to fund seasonal working capital requirements related to product sales, TV show and mobile digital development and strategic acquisitions.

Spin Master primarily uses third parties to manufacture, warehouse and distribute its products. As a result, the Company does not have to incur material investments in property, plant and equipment on an annual basis. The Company's annual capital expenses are mostly comprised of the purchase of tooling used in the manufacturing process and TV show production.

CASH FLOW

Cash from Operating Activities

Cash flows from operating activities were \$62,310 for the three months ended December 31, 2016 compared to \$65,124 for the same period in 2015. For the twelve months ended December 31, 2016 cash flows from operating activities were \$73,038 compared to \$55,640 from operating activities for the same period in 2015. The increase in cash from operating activities was driven by higher net income offset by changes in working capital driven by higher accounts receivables as a result of increased sales.

Investing Activities

The following table provides a summary of Spin Master's consolidated cash flows used for investing activities for the three and twelve months ended December 31, 2016 and 2015:

(All amounts in US\$ 000's)

	Three months ended December 31		
	2016	2015	\$ Change
Capital Expenditure in Property Plant and			
Tooling	\$ 5,500	\$ 3,876	\$ 1,624
Other	\$ 2,890	\$ 931	\$ 1,959
Total Capital Expenditures in Property Plant and Equipment	\$ 8,390	\$ 4,807	\$ 3,583
Intangible Assets			
Brands, Licenses and trademark acquisitions	\$ (1)	\$ 5,801	\$ (5,802)
Content development	\$ (4,547)	\$ 3,221	\$ (7,768)
Computer software	\$ 722	\$ 825	\$ (103)
Total Capital Expenditures in Intangible Assets	\$ (3,826)	\$ 9,847	\$ (13,673)
Total Capital Expenditures	4,564	14,654	(10,090)
Disposals	(10)	—	(10)
Business Acquisition (net of cash received)	\$ —	\$ 46,180	\$ (46,180)
Net cash flows used in investing activities	\$ 4,554	\$ 60,834	\$ (56,280)

(All amounts in US\$ 000's)

	Twelve months ended December 31		
	2016	2015	\$ Change
Capital Expenditure in Property Plant and			
Tooling	19,574	13,754	5,820
Other	4,462	1,486	2,976
Total Capital Expenditures in Property Plant and Equipment	24,036	15,240	8,796
Brands, Licenses and trademark acquisitions	62	5,801	(5,739)
Content development	15,390	21,791	(6,401)
Computer software	2,090	1,461	629
Total Capital Expenditures in Intangible Assets	17,542	29,053	(11,511)
Total Capital Expenditures	41,578	44,293	(2,715)
Disposals	(10)	—	(10)
Business Acquisition (net of cash received)	130,705	49,280	81,425
Net cash flows used in investing activities	172,273	93,573	78,700

Cash flows used in investing activities were \$4,554 for the three months ended December 31, 2016 compared to \$60,834 for the same period in 2015. The decrease in cash flows used in investing activities was driven primarily by the acquisition of Cardinal in the fourth quarter of 2015 and lower content development due to higher recognition of tax credits associated with the production of television programming. For the twelve months ended December 31, 2016 cash flows used in investing activities were \$172,273 compared to \$93,573 for the same period in 2015. The increase in cash flows used in investing activities was driven by cash used in business acquisitions in 2016 related to Swimways and Toca Boca.

Financing Activities

Cash flows used in financing activities were \$5,260 for the three months ended December 31, 2016 compared to \$10,084 for the three months ended December 31, 2015. Cash flows used in investing activities consist of change in bank indebtedness.

Cash flows generated by financing activities were \$155,467 for the twelve months ended December 31, 2016 compared to cash flows used in financing activities of \$11,541 for the comparable period in 2015. Cash flows generated by financing activities consisted of the increase in bank indebtedness for acquisitions and the proceeds from the Treasury Offering in the 2nd quarter of 2016.

Free Cash Flow

The following table provides a reconciliation of Spin Master's consolidated Free Cash Flow (a non-IFRS measure) to cash from operations for three and twelve months ended December 31, 2016 and 2015:

	Three Months Ended December 31		
	2016	2015	\$ Change
Net cash flows generated by (used in) operating activities	\$ 62,310	\$ 65,124	\$ (2,814)
Plus:			
Changes in Working Capital	\$ (61,637)	\$ (62,487)	\$ 850
Net cash flows generated by (used in) operating activities before working capital changes	\$ 673	\$ 2,637	\$ (1,964)
Less:			
Net cash flows used in investing activities	\$ (4,554)	\$ (60,834)	\$ 56,280
Plus:			
Cash used for License, Brand and Business Acquisitions	\$ —	\$ 51,938	\$ (51,938)
Free Cash Flow	\$ (3,881)	\$ (6,259)	\$ 2,378

	Twelve Months Ended December 31		
	2016	2015	\$ Change
Net cash flows generated by (used in) operating activities	\$ 73,038	\$ 55,640	\$ 17,398
Plus:			
Changes in Working Capital	\$ 87,220	\$ 50,044	\$ 37,176
Net cash flows generated by (used in) operating activities before working capital changes	\$ 160,258	\$ 105,684	\$ 54,574
Less:			
Net cash flows used in investing activities	\$ (172,273)	\$ (93,573)	\$ (78,700)
Plus:			
Cash used for License, Brand and Business Acquisitions	\$ 130,705	\$ 55,038	\$ 75,667
Free Cash Flow	\$ 118,690	\$ 67,149	\$ 51,541

Free Cash Flow was negative \$3,881 for the three months ended December 31, 2016 compared to negative \$6,259 for the same period in 2015. The increase in Free Cash Flow was driven by a decrease in cash flows used in investing activities before cash used for business acquisitions. For the twelve months ended December 31, 2016 Free Cash Flow was \$118,690 an increase of \$51,541 compared to the same period in 2015. The increase in Free Cash Flow was due to higher net cash flows generated by operating activities before working capital changes and offset by increased investing activities.

COMMITMENTS

In the normal course of business, Spin Master enters into contractual arrangements to obtain and protect Spin Master's right to create and market certain products and to ensure availability and timely delivery of future purchases of goods and services. These arrangements include commitments for future services, purchases and royalty payments pursuant to licensing agreements. Certain of these commitments routinely contain provisions for guarantees or minimum expenditures during the terms of the contracts. Additionally, Spin Master routinely enters into non-cancellable lease agreements for premises and equipment, which contain minimum rental payments.

The following table summarizes (in US\$ thousands) Spin Masters contractual commitments and obligations as at December 31, 2016, which relate primarily to the leasing of offices and related office equipment and minimum guarantees due to licensor's. The leases have been entered into with terms of between two and ten years in length and minimum guarantees to licensor's are primarily due within 24 months, but can extend beyond 24 months.

	Less than 1 year to greater than 5 years			Total
	<1 Year	1-5 Years	> 5 Years	
Lease obligations	6,784	16,097	—	22,881
Minimum Guarantees Due to Licensors	32,092	—	—	32,092
Borrowings	158,107	38	—	158,145
Total Commitments	196,983	16,135	—	213,118

OFF-BALANCE SHEET ARRANGEMENTS

Spin Master has no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

OUTSTANDING SHARE CAPITAL

As at March 22, 2017, there were 77,230,812 Multiple Voting Shares outstanding and 24,445,309 Subordinate Voting Shares outstanding.

As of March 22, 2017 pursuant to grants under the Company's Long-Term Incentive Plan, 943,114 Subordinate Voting Shares were issuable under outstanding Restricted Stock Units, up to 713,050 Subordinate Voting Shares were issuable under outstanding Performance Share Units (assuming vesting at 200%) and 346,148 Subordinate Voting shares were issuable under outstanding Share Option grants.

RISKS RELATING TO SPIN MASTER'S BUSINESS

If Spin Master does not create original products, brands and entertainment properties, or enhance existing products, brands and entertainment properties, that satisfy consumer preferences, and anticipate, initiate and capitalize on developments in its industry, the Company's business will suffer.

Spin Master depends on its ability to innovate products, brands and entertainment properties and to identify changing consumer sentiments and sell original products, brands and entertainment properties that respond to such changes on a timely basis. Spin Master also relies on its ability to identify third-party entertainment media that is likely to be popular with consumers and license rights to such media to incorporate into the Company's products. Spin Master's ability to maintain current sales, and increase sales or establish sales with new, innovative toys, will depend on its ability to satisfy play preferences, enhance existing products, engineer, develop, introduce and achieve market acceptance of its original products, brands and entertainment properties. If the Company is unable to anticipate consumer preferences, its products, brands and entertainment properties may not be accepted by children, parents, or families, demand for the Company's products, brands and entertainment properties could decrease and Spin Master's business, financial condition and performance could be materially and adversely affected.

Spin Master's business and financial performance depend largely upon the appeal of its products, brands and entertainment properties. Failure to anticipate, identify and react to changes in children's interests and consumer preferences could

significantly lower sales of its products, brands and entertainment properties and harm its revenues and profitability. This challenge is more difficult with the ever increasing utilization of technology and digital media in entertainment offerings, and the increasing breadth of entertainment available to consumers. Evolving consumer tastes and shifting interests, coupled with changing and expanding sources of entertainment and consumer products and properties which compete for children's and families' interest and acceptance, create an environment in which some products and properties can fail to achieve consumer acceptance, and other products and properties can be popular during a certain period of time but then be rapidly replaced. The preferences and interests of children and families evolve quickly, can change drastically from year to year and season to season and are difficult to anticipate. Significant, sudden shifts in demand are caused by "hit" toys, technologies and trends, which are often unpredictable. Even the Company's successful brands and products typically have a relatively short period of high demand followed by a decrease in demand as the product matures or is superseded by newer technologies and / or brands and products. A decline in the popularity of the Company's existing products, brands and entertainment properties, or the failure of Spin Master's original products, brands and entertainment properties to achieve and sustain market acceptance with retailers and consumers, could significantly lower the Company's revenues and operating margins, which would harm Spin Master's business, financial condition and performance.

The industries in which Spin Master operates are highly competitive and the Company's inability to compete effectively may materially and adversely impact its business, financial condition and performance.

Spin Master operates in industries characterized by intense competition. The Company competes domestically and internationally with numerous large and small toy and game companies, as well as other children's entertainment companies. Low barriers to entry enable new competitors to quickly establish themselves with only a single popular product. New participants with a popular product idea or property can gain access to consumers and become a significant source of competition for the Company. Spin Master's competitors' products may achieve greater market acceptance than the Company's products and, in doing so, may potentially reduce the demand for the Company's products, brands or properties. Spin Master's competitors have obtained and are likely to continue to obtain licenses that overlap with the Company's licenses with respect to products, geographic areas and markets. Spin Master may not be able to obtain adequate shelf space in retail stores to support or expand its brands or products, and the Company may not be able to continue to compete effectively against current and future competitors.

In addition, Spin Master's toys and other products compete with the offerings of consumer electronics, digital media and social media companies. The level of this competition has increased due to increased use by children of tablet devices and mobile phones, and accelerated age compression whereby children are outgrowing categories of toys and other children's products at younger ages. The growing importance of digital media, and the heightened connection between digital media and consumer interest, has further increased the ability for new participants to enter Spin Master's markets, and has broadened the array of companies Spin Master competes with which can become a significant source of competition for the Company in a very short period of time. These existing and new competitors may be able to respond more rapidly than Spin Master to changes in consumer preferences. Spin Master's competitors' products may achieve greater market acceptance than the Company's products and potentially reduce demand for the Company's products, lower its revenues and lower its profitability.

Competition has also increased as a result of Spin Master's production of products in the entertainment market such as television and film platforms. Some of the Company's competitors in this market have interests in multiple media businesses which are often vertically integrated. Spin Master's ability to compete in the entertainment market depends on a number of factors, including its ability to provide high quality and popular entertainment content, adapt to new technologies and distribution platforms and achieve widespread distribution.

Some of Spin Master's competitors have longer operating histories, significantly greater financial, marketing and other resources, greater economies of scale, more long standing brands and products and greater name recognition. The Company may be unable to compete with them in the future. If Spin Master fails to compete, its business, financial condition and performance could be materially and adversely affected.

Spin Master licenses IP rights from third-party owners. Failure of such owners to properly maintain or enforce the IP underlying such licenses could have a material adverse effect on the Company's business, financial condition and performance. The Company's licensors may also seek to terminate Spin Master's license.

Spin Master is a party to a number of licenses that give the Company rights to third-party IP that is necessary or useful to the Company's business. Spin Master's success will depend in part on the ability of its licensors to obtain, maintain and enforce its licensed IP, in particular, those IP rights to which the Company has secured exclusive rights. Without protection for the IP Spin Master licenses, other companies might be able to offer substantially identical products for sale, which could have a material adverse effect on the Company's business, financial condition and performance.

One or more of the Company's licensors may allege that Spin Master has breached its license agreement with them, and accordingly seek to terminate Spin Master's license. If successful, this could result in the Company's loss of the right to

use the licensed IP, which could adversely affect the Company's ability to commercialize its technologies, products or services, as well as have a material adverse effect on its business, financial condition and performance.

Spin Master's failure to market or advertise products could have a material adverse effect on the Company's business, financial condition and performance.

Spin Master's products are marketed worldwide through a diverse spectrum of advertising and promotional programs. The Company's ability to sell products is largely dependent upon the success of these programs. If Spin Master does not market its products, sales could decline or if media or other advertising or promotional costs increase, Spin Master's costs could increase, which could have a material adverse effect on the Company's business, financial condition and performance. Additionally, loss of television or media support related to any of the Company's products may decrease the number of products it sells and harm its business, financial condition and performance.

Spin Master's success depends on its founders and other key personnel and without them the Company may be unable to maintain and expand its business.

Spin Master's future success depends on the continued contribution of the Company's founders, and other key personnel, including, designers, technical, sales, marketing and administrative personnel. The loss of services of any of the Company's key personnel could harm its business. Recruiting and retaining skilled personnel is costly and highly competitive. If the Company fails to retain, hire, train and integrate qualified employees and contractors, it may not be able to maintain and expand its business.

Spin Master may not be able to sustain or manage its product line growth, which may prevent the Company from increasing its net revenues.

Historically, Spin Master has experienced growth in its product lines which at times has been rapid. The Company's growth strategy calls for it to continuously develop and diversify its business by introducing original products, innovating and refining its existing product lines and expanding into international markets, entering into additional license agreements, and acquiring other companies, which will place additional demands upon the Company's management, operational capacity and financial resources and systems. The increased demand upon management may necessitate Spin Master's recruitment and retention of qualified personnel. This can be particularly difficult when unexpected, significant, sudden shifts in demand are caused by "hit" toys and trends. There can be no assurance that the Company will be able to recruit and retain qualified personnel or expand and manage its operations effectively and profitably. Implementation of Spin Master's growth strategy is subject to risks beyond its control, including competition, market acceptance of original products, changes in economic conditions, its ability to obtain or renew licenses on commercially reasonable terms and its ability to finance increased levels of accounts receivable and inventory necessary to support its sales growth, if any. Accordingly, there can be no assurance that the Company's growth strategy will be successful or that it will be able to achieve its targeted future sales growth. The lack of success in the Company's growth strategy may have a material and adverse effect on its business, financial condition and performance.

Failure to protect or enforce Spin Master's IP rights and claims by third parties that the Company is infringing their intellectual product rights could materially and adversely affect Spin Master's business, financial condition and performance.

Spin Master relies on a combination of patents, copyrights, trademarks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect its IP and proprietary rights. Contractual arrangements and other steps the Company has taken to protect its IP may not prevent misappropriation of its IP or deter independent third-party development of similar products. The steps Spin Master has taken may not prevent unauthorized use of its IP, particularly in foreign countries where the Company does not hold patents or trademarks or where the laws may not protect its IP as fully as in North America. Some of Spin Master's products and product features have limited IP protection, and, as a consequence, the Company may not have the legal right to prevent others from reverse engineering or otherwise copying and using these features in competitive products. Monitoring the unauthorized use of the Company's IP is costly, and any dispute or other litigation, regardless of the outcome, may be costly and time consuming and may divert the Company's attention.

Additionally, Spin Master has registered various domain names relating to some of its brands and products. If the Company fails to maintain these registrations, or if a third party acquires domain names similar to the Company's and engages in a business that may be confusing to the Company's users and customers, Spin Master's revenues may decline and it may incur additional expenses in maintaining its brands.

Spin Master periodically receives claims of infringement or otherwise becomes aware of potentially relevant patents, copyrights, trademarks or other IP rights held by other parties. Responding to any infringement claim, regardless of its validity, may be costly and time-consuming and may divert the Company's attention. If Spin Master or its licensors are

found to be infringing on the IP rights of any third party, Spin Master or its licensors may be required to obtain a license to use those rights, which may not be obtainable on reasonable terms, if at all. The Company also may be subject to significant damages or injunctions against the development and sale of some of its products or against the use of a trademark or copyright in the sale of some of its products. Spin Master's insurance does not cover all types of IP claims and insurance levels for covered claims may not be adequate to indemnify the Company against all liability, which could materially and adversely harm its business, financial condition and performance.

Spin Master may not realize the full benefit of its licenses if the licensed material has less market appeal than expected and licenses may not be profitable to the Company if sales revenue from the licensed products are not sufficient to support the minimum guaranteed royalties.

An integral part of Spin Master's business involves obtaining licenses to produce products utilizing various entertainment brands and images. As a licensee of entertainment-based properties, the Company has no guarantee that a particular brand or property will translate into a successful toy, entertainment brand or other product. Additionally, a successful brand may not continue to be successful or maintain a high level of sales. As well, popularity of licensed properties may not result in popular toys or the success of the properties with the public. The license agreements into which the Company enters usually require it to pay minimum royalty guarantees that may be substantial, and in some cases may be greater than the amount it earns from sales of the licensed items. This could result in write-offs of significant amounts, which in turn could materially and adversely impact the Company's financial condition and performance. Acquiring or renewing licenses may require the payment of minimum guaranteed royalties that Spin Master considers to be too high to be profitable, which may result in losing licenses it currently holds when they become renewable under their terms, or missing business opportunities for new licenses. If the Company is unable to acquire or maintain successful licenses on advantageous terms, its business, financial condition and performance may be materially and adversely impacted.

Failure to maintain existing relationships with inventors and entertainment content collaborators or develop relationships with new inventors and entertainment content collaborators could have a material adverse effect on Spin Master's business, financial condition and performance.

Spin Master's relationships with inventors are a critical aspect of the Company's product development. A significant portion of Spin Master's product ideas have been sourced from inventors and developed by the Company. If Spin Master fails to maintain existing relationships or to build new relationships within the inventor community or if the Company experiences an adverse change in the perception of the Company by inventors, Spin Master may receive fewer product concepts from inventors. This would adversely impact Spin Master's ability to introduce new, innovative brands and products, which in turn would materially and adversely harm its business, financial condition and performance.

Spin Master's relationships with entertainment collaborators, including writers, content developers, broadcasters and directors, are a critical aspect of the Company's development of its entertainment properties, brands and images. A portion of Spin Master's entertainment properties, brands and images have been sourced from external collaborators. If Spin Master fails to maintain existing relationships or to build new relationships with entertainment collaborators or if the Company experiences an adverse change in the perception of the Company by these entertainment collaborators, Spin Master may receive fewer concepts. This would adversely impact Spin Master's ability to introduce new entertainment properties, brands and images, which in turn would materially and adversely harm its business, financial condition and performance.

Spin Master may engage in acquisitions, mergers, or dispositions, which may affect the profit, revenues, profit margins or other aspects of its business. Spin Master may not realize the anticipated benefits of future acquisitions, mergers or dispositions to the degree anticipated, or such transactions could have a material adverse impact on the Company's business, financial condition and performance.

Acquisitions have been a part of Spin Master's growth and have enabled it to further broaden and diversify its product offerings. The Company expects that in the future it will further expand its operations, brands, and product offerings through the acquisition of additional businesses, products or technologies. However, the Company may not be able to identify suitable acquisition targets or merger partners and the Company's ability to efficiently integrate large acquisitions may be limited by its lack of experience with them. If Spin Master is able to identify suitable targets or merger partners, it may not be able to acquire these targets on acceptable terms or agree to terms with merger partners. Also, Spin Master may not be able to integrate or profitably manage acquired businesses and may experience substantial expenses, delays or other operational or financial problems associated with the integration of acquired businesses. The Company may also face substantial expenses, delays or other operational or financial problems if it is unable to sustain the distribution channels and other relationships currently in place at an acquired business. The businesses, products, brands or properties the Company acquires may not achieve or maintain popularity with consumers, and other anticipated benefits may not be realized immediately or at all. Further, integration of an acquired business may divert the attention of the Company's management from its core business. In cases where Spin Master acquires businesses that have key talented individuals, Spin Master cannot be certain that those persons will continue to work for it after the acquisition or that they will continue

to develop popular and profitable products. Loss of such individuals could materially and adversely affect the value of businesses that the Company acquires.

Acquisitions also entail numerous other risks, including but not limited to:

- unanticipated costs and legal liabilities;
- adverse effects on the Company's existing business relationships with its suppliers and customers;
- risk of entering markets in which the Company has limited or no prior experience;
- amortizing any acquired intangible assets; and
- difficulties in maintaining uniform standards, procedures, controls and policies.

Some or all of the foregoing risks could have a material adverse effect on Spin Master's business, financial condition and performance. In addition, any businesses, products or technologies the Company may acquire may not achieve anticipated revenues or income and the Company may not be able to achieve cost savings and other benefits that it would hope to achieve with an acquisition.

Acquisitions could also consume a substantial portion of Spin Master's available cash, could result in incurring substantial debt which may not be available on favourable terms, and could result in the Company assuming contingent liabilities. In addition, if the business, product or technologies the Company acquires are unsuccessful it would likely result in the incurrence of a write-down of such acquired assets, that could adversely affect Spin Master's financial performance. The Company's failure to manage its acquisition strategy could have a material adverse effect on its business, financial condition and performance.

Consistent with Spin Master's past practice and in the normal course, the Company may have outstanding non-binding letters of intent and / or conditional agreements or may otherwise be engaged in discussions with respect to possible acquisitions which may or may not be material. However, there can be no assurance that any of these letters, agreements and / or discussions will result in an acquisition and, if they do, what the final terms or timing of any acquisition would be.

Spin Master's dependence on third-party manufacturers and distributors to manufacture and distribute Spin Master's products presents risks to the Company's business and exposes it to risks associated with international operations.

Spin Master's products are manufactured by third-party manufacturers, most of which are located in Asia and primarily in China, and stored and distributed by third parties on its behalf. The Company's operations could be adversely affected if the Company lost its relationship with any of its third-party manufacturers or distributors, or if Spin Master were to be prevented from obtaining products from a substantial number of its current suppliers due to political, labour or other factors beyond the Company's control. Although Spin Master's external sources of manufacturing and its distribution centers can be shifted over a period of time to alternative sources, should such changes be necessary, the Company's operations could be disrupted, potentially for a significant period of time, while alternative sources were secured.

As a result of Spin Master's dependence on third-party manufacturers, any difficulties encountered by one of the Company's third-party manufacturers that results in production delays, cost overruns or the inability to fulfill its orders on a timely basis, including political disruptions, labour difficulties and other factors beyond the Company's control, could adversely affect the Company's ability to deliver its products to its customers, which in turn could harm the Company's reputation and adversely affect its business, financial condition and performance. Similarly, Spin Master relies on third-party distributors to transport its products to the markets in which they are sold and to distribute those products within those markets. Any disruption affecting the ability of the Company's third-party distributors to timely deliver or distribute its products to its customers could cause the Company to miss important seasons or opportunities, harm its reputation or cause its customers to cancel orders.

Spin Master's significant use of third-party manufacturers outside of North America also exposes the Company to risks, including:

- currency fluctuations;
- limitations on the repatriation of capital;

- potential challenges to the Company's transfer pricing determinations and other aspects of its cross border transactions which may impact income tax expense;
- political instability, civil unrest and economic instability;
- greater difficulty enforcing IP rights and weaker laws protecting such rights;
- requirements to comply with different laws in varying jurisdictions, which laws may dictate that certain practices that are acceptable in some jurisdictions are not acceptable in others, and changes in governmental policies;
- natural disasters and greater difficulty and expense in recovering from them;
- difficulties in moving materials and products from one country to another, including port congestion, strikes and other transportation delays and interruptions;
- difficulties in controlling the quality of raw materials and components used to manufacture the Company's products, which may lead to public health and other concerns regarding its products;
- changes in international labour costs, labour strikes, disruptions or lock-outs; and
- the imposition of tariffs or other protectionist measures, or the breakdown of trade relations.

Due to Spin Master's reliance on international sourcing of manufacturing, its business, financial condition and performance could be significantly and materially harmed if any of the risks described above were to occur.

Spin Master requires its third-party manufacturers and distributors to comply with Spin Master's Code of Conduct, which is designed to prevent products manufactured by or for the Company from being produced under inhumane or exploitive conditions. Spin Master's Code of Conduct addresses a number of issues, including work hours and compensation, health and safety, and abuse and discrimination. In addition, the Company requires that its products supplied by third-party manufacturers or distributors be produced or distributed in compliance with all applicable laws and regulations, including consumer and product safety laws in the markets where those products are sold. The Company has the right, both directly and through the use of outside monitors, to monitor compliance by its third-party manufacturers and distributors with Spin Master's Code of Conduct and other manufacturing requirements. In addition, the Company conducts quality assurance testing on its products, including products manufactured or distributed for the Company by third parties. Notwithstanding these requirements and Spin Master's monitoring and testing of compliance with them, there remains the risk that one or more of the Company's third-party manufacturers or distributors will not comply with Spin Master's requirements and that Spin Master will not immediately discover such non-compliance. Any failure of the Company's third-party manufacturers or distributors to comply with labour, consumer, product safety or other applicable requirements in manufacturing or distributing products for the Company could result in damage to Spin Master's reputation, harm sales of its products and potentially create liability for Spin Master and its business, financial condition and performance could be materially and adversely impacted.

Spin Master's sales are concentrated with a small number of retailers that do not make long-term purchase commitments. Consequently economic difficulties or changes in the purchasing policies of those retailers could have a material adverse effect on the Company's business, financial condition and performance.

A small number of retailers account for a large share of Spin Master's total sales. For 2016, Wal-Mart Stores, Inc., Target Corporation and Toys "R" Us, Inc. collectively accounted for 51.9% of the Company's Gross Product Sales. This concentration means that if one or more of Spin Master's major customers were to experience difficulties in fulfilling their obligations to the Company, cease doing business with the Company, significantly reduce the amount of their purchases from the Company, favour competitors or new entrants, return substantial amounts of Spin Master's products, favour its competitors or increase their competition with Spin Master by expanding their private label product lines or seek material financial contributions from the Company towards price reductions at the retail level, the Company's business, financial condition and performance could suffer. In addition, increased concentration among Spin Master's customers could also negatively impact its ability to negotiate higher sales prices for its products, could result in lower gross margins and could reduce the number of products the Company would otherwise be able to bring to market. Retailers do not make any long-term commitments to the Company regarding purchase volumes and make all purchases by delivering one-time purchase orders. Any customer could reduce its overall purchases of the Company's products, reduce the number and variety of the Company's products that it carries and the shelf space allotted for Spin Master's products, or otherwise seek to materially change the terms of their business relationship with Spin Master at any time. Any such change could significantly harm the Company's business, financial condition and performance. Similarly, liquidity problems at one or more of the Company's key customers could expose the Company to losses from bad debts and negatively impact its business, financial condition and performance. Spin Master's sales to retailers are typically made on credit without collateral. There is a risk that

customers will not pay, or that payment will be delayed, because of bankruptcy or other factors beyond Spin Master's control, which could increase its exposure to losses from bad debts and increase its cost of sales. In addition, if these or other retailers were to cease doing business as a result of bankruptcy, or significantly reduce the number of stores they operate, it could have a material adverse effect on the Company's business, financial condition and performance. Spin Master's credit insurance may not cover all types of claims against customers and insurance levels for covered claims may not be adequate to indemnify the Company against all liability, which could materially and adversely harm the Company's business, financial condition and performance.

Uncertainty and adverse changes in general economic conditions may negatively affect consumer spending, which could have a material adverse effect on Spin Master's revenue and profitability.

Current and future conditions in the economy have an inherent degree of uncertainty. As a result, it is difficult to estimate the level of growth or contraction for the economy as a whole. It is even more challenging to estimate growth or contraction in various parts, sectors and regions of the economy, including the many different markets in which Spin Master participates. The Company's budgeting and forecasting are dependent upon estimates of demand for its products and growth or contraction in the markets it serves. Economic uncertainty complicates reliable estimation of future income and expenditures. Adverse changes may occur as a result of weakening global economic conditions, tightening of consumer credit, falling consumer confidence, increasing unemployment, declining stock markets or other factors affecting economic conditions generally. These changes may negatively affect demand for Spin Master's products, increase exposure to retailers with whom it does business, increase the cost and decrease the availability of financing to fund Spin Master's working capital needs, or increase costs associated with manufacturing and distributing products, any of which could have a material and adverse effect on the Company's revenue and profitability.

In addition, consumer spending habits, including spending on Spin Master products, are affected by, among other things, prevailing economic conditions, levels of employment, fuel prices, salaries and wages, the availability of consumer credit, consumer confidence and consumer perception of economic conditions. A general economic slowdown in Canada, the U.S. and other parts of the world could decrease demand for the Company's products which would adversely affect its revenue; an uncertain economic outlook may adversely affect consumer spending habits and customer traffic, which may result in lower revenue. A prolonged global economic downturn could have a material negative impact on the Company's business, financial condition and performance.

Failure to leverage Spin Master's portfolio of brands and products effectively across entertainment and media platforms, maintain relationships with key television and motion picture studios, and entertainment and media companies could have a material adverse effect on the Company's business, financial condition and performance.

Complementing Spin Master's product offerings with entertainment and media initiatives is an integral part of the Company's growth strategy. Spin Master invests in interactive media and other entertainment initiatives, extending the Company's brands across multiple platforms. Establishing and maintaining relationships with key broadcasters and motion picture studios, and entertainment and media companies are critical to the successful execution of these initiatives. The Company's failure to execute effectively on these initiatives could result in its inability to recoup its investment and harm the related toy brands employed in these initiatives. Such failures could have a material adverse effect on the Company's prospects, business, financial condition and performance.

Risks Related to the Broadcast Entertainment Industry.

The broadcast entertainment industry involves a substantial degree of risk. Acceptance of children's entertainment programming represents a response not only to the production's artistic components, but also the quality and acceptance of other competing programs released into the marketplace at or near the same time, the availability of alternative forms of children's entertainment and leisure time activities, general economic conditions, public tastes generally and other intangible factors, all of which could change rapidly or without notice and cannot be predicted with certainty. There is a risk that some or all of Spin Master's programming will not be purchased or accepted by the public generally, resulting in a portion of costs not being recouped or anticipated direct and indirect profits not being realized, which could have a material and adverse effect on the Company's business, financial condition and performance. There can be no assurance that revenue from existing or future programming will replace loss of revenue associated with the cancellation or unsuccessful commercialization of any particular production or that Spin Master's entertainment programming will generate product sales.

Distributors' decisions regarding the timing of release and promotional support of Spin Master's television programs are important in determining the success of these programs. The Company does not control the timing and manner in which its distributors distribute the Company's television programs. Any decision by those distributors not to distribute or promote one of Spin Master's television programs or to promote competitors' programs to a greater extent than they promote Spin Master's could have a material and adverse effect on the Company's business, financial condition and performance.

The business of producing and distributing television programs is highly competitive. Spin Master faces intense competition with other producers and distributors, many of whom are substantially larger and have greater financial, technical and marketing resources than Spin Master. The Company competes with other television production companies for ideas and storylines created by third parties as well as for actors, directors and other personnel required for a production. Spin Master may not be successful in any of these efforts which could have a material and adverse effect on its business, financial condition and performance.

A production's costs may exceed its budget. Unforeseen events such as labour disputes, death or disability of a star performer, changes related to technology, special effects or other aspects of production, shortage of necessary equipment, damage to film negatives, master tapes and recordings, or adverse weather conditions, or other unforeseen events may cause cost overruns and delay or frustrate completion of a production. Although Spin Master has historically completed its productions within budget, there can be no assurance that it will continue to do so. The Company currently maintains insurance policies and when necessary, completion bonds, covering certain of these risks. There can be no assurance that any overrun resulting from any occurrence will be adequately covered or that such insurance and completion bonds will continue to be available or, if available on terms acceptable to Spin Master. In the event of substantial budget overruns, there can be no assurance that such costs will be recouped, which could have a material and adverse effect on the Company's business, financial condition and performance.

There can be no assurance that the local cultural incentive programs, film equity investment programs, federal tax credits and provincial tax credits which Spin Master may access in Canada and internationally from time to time, including those sponsored by various European, Australian and Canadian governmental agencies, will not be reduced, amended or eliminated. Any change in the policies of those countries in connection with their incentive programs could have a material and adverse effect on the Company's business, financial condition and performance.

Spin Master's business is seasonal and therefore its annual financial performance depends, in large part, on its sales relating to the holiday shopping season. As retailers become more efficient in their control of inventory levels and give shorter lead times for production, failures to predict demand and possible transportation, production or other disruptions during peak demand times may affect the Company's ability to deliver products in time to meet retailer demands.

Seasonality factors cause Spin Master's operating results to fluctuate significantly from quarter to quarter. A majority of the Company's sales occur during the period from September through December. This seasonality has increased over time, as retailers become more efficient in their control of inventory levels through inventory management techniques. Spin Master's failure to predict levels of consumer demand surrounding the holiday season may result in under-producing popular products and overproducing underperforming items, which, in either case, would adversely affect the Company's business, financial condition and performance. Spin Master's results of operations may also fluctuate as a result of factors such as the timing of new products or new products that its competitors introduce in the marketplace, the advertising activities of its competitors and the emergence of new market entrants. In addition, due to the seasonal nature of Spin Master's business, the Company would be materially and adversely impacted, in a manner disproportionate to the impact on a company with sales spread more evenly throughout the year, by unforeseen events, such as public health crises, terrorist attacks, adverse weather conditions or economic shocks that harm the retail environment or consumer buying patterns during the Company's key selling season, or by events such as strikes, port delays or supply chain interruptions, in the second half of the year.

If Spin Master fails to meet transportation schedules, it could damage the Company's relationships with retailers, increase the Company's shipping costs or cause sales opportunities to be delayed or lost. In order to be able to deliver its merchandise on a timely basis, Spin Master needs to maintain adequate inventory levels of the desired products. If the Company's inventory forecasting and production planning processes result in Spin Master manufacturing inventory in excess of the levels demanded by its customers, the Company could be required to record inventory write-downs for excess and obsolete inventory, which could materially and adversely affect the Company's financial performance. If the inventory of Spin Master products held by its retailers is too high, they may not place or may reduce orders for additional products, which could unfavourably impact the Company's future sales and materially and adversely affect its financial performance.

International sales are subject to various risks and failure to implement the international growth strategy could have a material adverse effect on the Company's business, financial condition and performance.

Spin Master currently relies on international sales of its products and expects to do so to a greater extent in the future as it continues to expand its business. The Company believes that its revenue and financial performance will depend in part upon its ability to increase sales in international markets. Implementation of Spin Master's growth strategy is subject to risks beyond its control, and accordingly, there can be no assurance that the Company's growth strategy will be successful. The lack of success in the Company's growth strategy may have a material and adverse effect on its business, financial condition and performance.

International sales are subject to various risks, including: exposure to currency fluctuations; political and economic instability; increased difficulty of administering business; and the need to comply with a wide variety of international and domestic laws and regulatory requirements. There are a number of risks inherent in the Company's international activities, including: unexpected changes in Canadian, U.S. or other governmental policies concerning the import and export of goods; services and technology and other regulatory requirements; tariffs and other trade barriers; costs and risks of localizing products for foreign languages; longer accounts receivable payment cycles; limits on repatriation of earnings; the burdens of complying with a wide variety of non-Canadian or U.S. laws; and difficulties supervising and managing local personnel. The financial stability of non-Canadian or U.S. markets could also affect Spin Master's international sales. Such factors may have a material adverse effect on the Company's revenues and expenses related to international sales and, consequently, business, financial condition and performance. In addition, international income may be subject to taxation by more than one jurisdiction, which could also have a material adverse effect on the Company's financial performance.

Significant developments stemming from the recent U.S. presidential election could have a material adverse effect on our business, results of operations and financial condition.

The outcome of the recent U.S. presidential election, as well as the Republican Party maintaining control of both the House of Representatives and Senate of the United States, has created uncertainty with respect to, among other things, existing and proposed trade agreements, free trade generally, and potential significant increases on tariffs on goods imported into the United States, particularly from Mexico, Canada and China. It is unknown at this time to what extent new laws will be passed or pending or new regulatory proposals will be adopted, if any, or the effect that such passage or adoption may have on the economy and / or our business. However, changes in U.S. social, political, regulatory and economic conditions or in laws and policies governing foreign trade in the jurisdictions in which we and / or our customers or suppliers operate, may have a material adverse effect on the Company's revenues and expenses related to international sales and, consequently, business, financial condition and performance.

The production and sale of private-label toys by the retailers with which Spin Master does business may result in lower purchases of the Spin Master's branded products by those customers.

In recent years, retailers have been increasing the development of their own private-label products that directly compete with the products of their other suppliers, including children's entertainment companies. Some of the retailers with whom Spin Master does business sell private-label toys designed, manufactured and branded by the retailers themselves. The Company's customers may sell their private-label toys at prices lower than comparable toys sold by the Company, and, particularly in the event of strong sales of private-label toys, may elect to reduce their purchases of its branded products. In some cases, retailers who sell these private-label toys are larger than Spin Master and have substantially more resources. An increase in the sale of private-label product by retailers could have a material adverse effect on the Company's business, financial condition and performance.

Product recalls, post-manufacture repairs of Spin Master's products, product liability claims, absence or cost of insurance, and associated costs could harm the Company's reputation and this could cause Spin Master's licensors to terminate or not renew its licenses. This could have a material adverse effect on the Company's business, financial condition and performance.

Spin Master is subject to regulation by Health Canada, the U.S. Consumer Product Safety Commission and regulatory authorities and by similar consumer protection regulatory authorities in other countries in which Spin Master sells its products. These regulatory bodies have the authority to remove from the market, products that are found to be defective and present a substantial hazard or risk of serious injury or death. The Company has experienced, and may in the future experience, issues in relation to products that result in recalls, delays, withdrawals, or post-manufacture repairs or replacements of products.

Individuals have asserted claims, and may in the future assert claims, that they have sustained injuries from the Company's products, and Spin Master may be subject to lawsuits relating to these claims. There is a risk that these claims or liabilities may exceed, or fall outside of the scope of, Spin Master's insurance coverage as Spin Master does not maintain separate product recall insurance. The Company has recorded, and in the future may record, charges and incremental costs relating to recalls, withdrawals or replacements of its products, based on the Company's most recent estimates of retailer inventory returns, consumer product replacement costs, associated legal and other professional fees, and costs associated with advertising and administration of product recalls. As these current and expected future charges are based on estimates, they may increase as a result of numerous factors, many of which are beyond Spin Master's control, including the amount of products that may be returned by consumers and retailers, the number and type of legal, regulatory, or legislative proceedings relating to product recalls, withdrawals or replacements or product safety proceedings in Canada, the U.S. and elsewhere that may involve the Company, as well as regulatory or judicial orders or decrees in Canada, the U.S. and elsewhere that may require the Company to take certain actions in connection with product recalls.

Moreover, Spin Master may be unable to obtain adequate liability insurance in the future. Any of these issues could result in damage to the Company's reputation, diversion of development and management resources, reduced sales, and increased costs and could cause the Company's licensors to terminate or not renew its licenses, any of which could materially and adversely harm its business, financial condition and performance. Product recalls, withdrawals, or replacements may also increase the competition that Spin Master faces. Some competitors may attempt to differentiate themselves by claiming that their products are produced in a manner or geographic area that is insulated from the issues that preceded recalls, withdrawals or replacements of Spin Master's products. In addition, to the extent that the Company's competitors choose not to implement enhanced safety and testing protocols comparable to those that the Company and its third-party manufacturers have adopted, such competitors could enjoy a cost advantage that could enable them to offer products at lower prices than Spin Master.

Additionally, product recalls relating to Spin Master's competitors' products, post-manufacture repairs of their products and product liability claims against the Company's competitors may indirectly impact the Company's product sales even if its products are not subject to the same recalls, repairs or claims.

Spin Master's ability to enter into licensing agreements for products on competitive terms may be adversely affected if licensors believe that products sold by the Company will be less favourably received in the market. Inventors and entertainment content collaborators may be less willing to work with the Spin Master and the Company may receive fewer product concepts. Spin Master's retailer customers may be less willing to purchase the Company's products or to provide marketing support for those products, shelf space, promotions and advertising. Reduced acceptance of the Company's products would adversely affect its business, financial condition and performance.

Unfavourable resolution of litigation matters and disputes, including those arising from recalls, withdrawals or replacements of Spin Master's products, could have a material adverse effect on the Company's business, financial condition and performance.

Spin Master is involved from time to time in litigation and disputes, including those arising from recalls, withdrawals or replacements of its products. Since outcomes of regulatory investigations, litigation and arbitration disputes are inherently difficult to predict, there is the risk that an unfavourable outcome in any of these matters could negatively affect the Company's business, financial condition and performance. Regardless of the outcome, litigation may result in substantial costs and expenses to Spin Master and significantly divert the attention of its management. The Company may not be able to prevail in, or achieve a favourable settlement of, pending litigation. In addition to pending litigation, future litigation, government proceedings, labour disputes or environmental matters could lead to increased costs or interruption of the Company's normal business operations.

Failure to implement new initiatives or the delay in the anticipated timing of launching new products or entertainment properties could have a material adverse effect on Spin Master's business, financial condition and performance.

Spin Master has undertaken, and in the future may undertake, initiatives to improve the execution of its core business, globalize and extend its brands, develop or extend entertainment properties, leverage new trends, create new brands, offer new innovative products and technologies, enhance product safety, develop its employees, improve productivity, simplify processes, maintain customer service levels, drive sales growth, manage costs, capitalize on its scale advantage and improve its supply chain. These initiatives involve investment of capital and complex decision-making, as well as extensive and intensive execution, and these initiatives may not succeed or there may be a delay in the anticipated timing of the launch of new initiative or products. Failure to implement any of these initiatives, or the delay of the anticipated launch, could have a material adverse effect on the Company's business, financial condition and performance.

A reduction or interruption in the delivery of raw materials, parts and components from Spin Master's suppliers or a significant increase in the price of supplies could negatively impact the Company's profit margins or result in lower sales.

Spin Master's ability to meet customer demand depends in part on its ability to obtain timely and adequate delivery of materials, parts and components from Spin Master's suppliers. The Company has experienced shortages in the past, including shortages of raw materials and components, and may encounter these problems in the future. A reduction or interruption in supplies or a significant increase in the price of one or more supplies, such as fuel and resin (which is a petroleum-based product), could have a material adverse effect on the Company's business, financial condition and performance. Cost increases, whether resulting from shortages of materials or rising costs of materials, transportation, services or labour, could impact the profit margins on the sale of Spin Master's products. Due to market conditions, timing of pricing decisions and other factors, the Company may not be able to offset any of these increased costs by adjusting the prices of its products. Increases in prices of the Company's products could result in lower sales and have a material adverse effect on its financial condition and performance.

Spin Master's safety procedures are regularly monitored and are subject to change, which may materially and adversely affect its relationship with vendors and make it more difficult for it to purchase and deliver products on a timely basis to meet market demands. Future conditions may require the Company to adopt changes to its safety procedures that may increase its costs and adversely affect the Company's relationship with vendors.

Spin Master's operating procedures and requirements for vendors, which are regularly monitored and which are subject to change, including by implementing enhanced testing requirements and standards, impose additional costs on both Spin Master and the vendors from whom it purchases products. These changes may also delay delivery of the Company's products. Additionally, changes in industry wide product safety guidelines may affect the Company's ability to sell its inventory and may negatively impact its business. Spin Master's relationship with existing vendors may be adversely affected as a result of these changes, making it more dependent on a smaller number of vendors. Some vendors may choose not to continue to do business with the Company or not to accommodate the Company's needs to the extent that they have done so in the past. Due to the seasonal nature of Spin Master's business and the demands of its customers for deliveries with short lead times, Spin Master depends upon the cooperation of its vendors to meet market demand for its products in a timely manner. Existing and future events may require the Company to impose additional requirements on its vendors that may adversely affect the Company's relationships with those vendors and its ability to meet market demand in a timely manner which may in turn have a material and adverse effect on the Company's business, financial condition and performance.

Negative publicity and product reviews may negatively impact Spin Master's business, financial condition and performance.

There has been a marked increase in the use of social media platforms and similar channels, including weblogs (blogs), social media websites and other forms of Internet-based communications that provide individuals with access to a broad audience of consumers and other interested persons. The availability and impact of information on social media platforms is virtually immediate and the accuracy of such information is not independently verified. The opportunity for dissemination of information, including inaccurate information, is seemingly limitless and readily available. Information concerning Spin Master or one or more of its products may be posted on such platforms at any time. Information posted may be adverse to Spin Master's interests or may be inaccurate, each of which may harm the Company's reputation and business. The harm may be immediate without affording Spin Master an opportunity for redress or correction. Ultimately, the risks associated with any such negative publicity or incorrect information cannot be completely eliminated or mitigated and may materially and adversely impact its business, financial condition and performance.

Increases in interest rates, the lack of availability of credit and Spin Master's inability to meet the debt covenant coverage requirements in its credit facility could negatively impact the Company's ability to conduct its business operations.

Increases in interest rates, both domestically and internationally, could negatively affect Spin Master's cost of financing its operations and investments. Adverse credit market conditions could limit the Company's ability to refinance its existing credit facility and raise additional debt that may be needed to fund the Company's operations. Additionally, Spin Master's ability to issue or borrow long-term debt and obtain seasonal financing or pay dividends could be adversely affected by factors such as an inability to meet certain debt covenant requirements and ratios. In the past, the Company's business has required and will continue to require capital expenditures and available resources to finance acquisitions. Accordingly, Spin Master's ability to maintain its current credit facility and its ability to issue or borrow long-term debt and raise seasonal financing are critical for the success of Spin Master's business. The Company's ability to conduct operations could be materially and adversely impacted should these or other adverse conditions affect the Company's sources of liquidity.

If Spin Master fails to maintain an effective system of internal controls, Spin Master may not be able to report its financial results or prevent fraud, which could harm the Company's financial performance and may cause investors to lose confidence in it.

Spin Master must maintain effective internal financial controls for it to provide reliable and accurate financial reports. The Company's compliance with the internal control reporting requirements will depend on the effectiveness of its financial reporting and data systems and controls. Spin Master expects these systems and controls to become increasingly complex to the extent that its business grows, including through acquisitions. To effectively manage such growth, the Company will need to continue to improve its operational, financial and management controls and its reporting systems and procedures. These measures may not ensure that Spin Master designs, implements and maintains adequate controls over its financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation or operation, could harm the Company's financial performance or cause it to fail to meet its financial reporting obligations. Inferior internal controls could also cause investors to lose confidence in the Company's reported financial information, which could have a material and adverse effect on the trading price of its stock and its access to capital.

Spin Master is subject to tax and regulatory compliance in all the jurisdictions in which it operates and may be subject to audits from time to time that could result in the assessment of additional taxes, interest and penalties.

Spin Master conducts business globally and is subject to tax and regulatory compliance in the jurisdictions in which it operates. These include those related to collection and payment of value added taxes at appropriate rates and the appropriate application of value added taxes to each of the Company's products, those designed to ensure that appropriate levels of customs duties are assessed on the importation of its products, as well as transfer pricing and other tax regulations designed to ensure that its intercompany transactions are consummated at prices that have not been manipulated to produce a desired tax result, that appropriate levels of income are reported as earned and that it is taxed appropriately on such transactions. International transfer pricing is a subjective area of taxation and generally involves a significant degree of judgment.

Spin Master may be subject to audits that are at various levels of review, assessment or appeal in a number of jurisdictions involving various aspects of value added taxes, customs duties, transfer pricing, income taxes, withholding taxes, sales and use and other taxes and related interest and penalties in material amounts. The taxation authorities in the jurisdictions where the Company carries on business could challenge the Company's transfer pricing policies. In some circumstances, additional taxes, interest and penalties may be assessed and deposits required to be paid in order to challenge the assessments. When applicable, the Company reserves in the consolidated financial statements an amount that it believes represents the most likely outcome of the resolution of disputes, but if it is incorrect in its assessment, it may have to pay a different amount which could potentially be material. Ultimate resolution of these matters can take several years, and the outcome is uncertain. If the taxing authorities in any of the jurisdictions in which the Company operates were to successfully challenge its transfer pricing practices or its positions regarding the payment of income taxes, customs duties, value added taxes, withholding taxes, sales and use, and other taxes, it could become subject to higher taxes and its revenue and earnings could be adversely affected.

Spin Master may be assessed penalties, interest in the event it is unable to fulfill its withholding obligations with respect to the Company's pre-IPO equity participation arrangements with certain current and former employees and may be required to pay the tax owed by participants who are not resident in Canada.

Spin Master is required to withhold tax and other source deductions from the entitlements participants receive under the Company's pre-IPO equity participation arrangements, including on the value of the Subordinate Voting Shares received by participants. Under the pre-IPO equity participation arrangements, the participants are required to provide the Company with the amount the Company is required to withhold. It is anticipated that Subordinate Voting Shares will be sold to fund this withholding obligation. The Subordinate Voting Shares shall be held by an escrow agent until the participants sell the shares. The participants shall not receive any proceeds from a sale of Subordinate Voting Shares until the Company has confirmed that it has received the required remittance amount. In addition, the participants granted the Company a power of attorney to allow the Company to sell Subordinate Voting Shares on their behalf.

In the event that the value of the Subordinate Voting Shares decreases significantly, the sale of Subordinate Voting Shares may not be sufficient to cover the Company's withholding obligations with respect to participants, the participants may not have other cash remuneration from which the Company could withhold and the Company may not be able to obtain funds from the participant to satisfy its withholding obligation. In such case, the Company could be assessed penalties and interest by CRA in respect of the amounts that were not remitted. In addition, the Company could be required to pay the tax owing by participants who are not resident in Canada.

Spin Master is subject to various laws and government regulations, which, if violated, could subject Spin Master to sanctions or third-party litigation or, if changed, could lead to increased costs, changes in the Company's effective tax rate or the interruption of normal business operations that would negatively impact the Company's business, financial condition and performance.

Spin Master is subject to a number of laws and regulations in Canada, the U.S. and internationally, both as a supplier of consumer products and services and indirectly through its third-party manufacturers and distributors. The Company is subject to the U.S. *Children's Online Privacy Protection Act*, which, as implemented, requires Spin Master to obtain verifiable, informed parental consent before it collects, uses or discloses personal information from children under the age of 13. The Company also is subject to various other laws, including Canadian, U.S. and international employment, environmental, trade, tax, and other laws. The Company believes that it takes all necessary steps to comply with these laws and regulations, but Spin Master cannot be certain that it is in full compliance or will be in the future. Failure to comply could result in sanctions or delays that could have a negative impact on the Company's business, financial condition and performance. In addition, changes in laws or regulations may lead to increased costs, changes in the Company's effective tax rate, or the interruption of normal business operations that would materially and adversely impact its business, financial condition and performance.

Significant changes in currency exchange rates could have a material adverse effect on Spin Master's business, financial condition and performance.

Spin Master's financial performance and cash flows are subject to changes in currency exchange rates and regulations. As the Company's financial results are reported in U.S. dollars, changes in the exchange rate between the U.S. dollar, Canadian dollar, Pound Sterling and the Euro may have an adverse effect / beneficial impact on the Company's U.S. dollar results. Furthermore, potential significant revaluation of the Chinese yuan, which may result in an increase in the cost of producing products in China, could negatively affect Spin Master's business. Government action may restrict the Company's ability to transfer capital across borders and may also impact the fluctuation of currencies in the countries where the Company conducts business or has invested capital. Significant changes in currency exchange rates and reductions in Spin Master's ability to transfer capital across borders could have a material adverse effect on its business, financial condition and performance. Currency fluctuations may also adversely affect the Company's financial performance when it repatriates the funds it receives from these sales or other sources.

System failures related to the websites that support Spin Master's internet-related products, applications, services and associated websites could harm the Company's business.

The websites, applications and services associated with Spin Master's internet-related products depend upon the reliable performance of their technological infrastructure. Customers could be inconvenienced and the Company's business may suffer if demand for access to those websites, applications or services exceeds their capacity. Any significant disruption to, or malfunction by, those websites or services, particularly malfunctions related to transaction processing, on those associated websites could result in a loss of potential or existing customers and sales.

Although Spin Master's systems have been designed to function in the event of outages or catastrophic occurrences, they remain vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunication failures, terrorist attacks, computer viruses, computer denial-of-service attacks, and other events. Some of the Company's systems are not fully redundant, and its disaster recovery planning is not sufficient for all eventualities. Spin Master's systems are also subject to break-ins, sabotage, and intentional acts of vandalism. Despite any precautions the Company may take, the occurrence of a natural disaster or other unanticipated problems at the Company's hosting facilities could result in lengthy interruptions in its services. Spin Master does not carry business interruption insurance sufficient to compensate it for losses that may result from interruptions in its service as a result of system failures. Any unplanned disruption of the Company's systems could result in material and adverse financial impact on its business, financial condition and performance.

Spin Master's business could be significantly harmed if its electronic data is compromised.

Spin Master maintains significant amounts of data electronically in locations around the world. This data relates to all aspects of the Company's business and also contains certain customer and consumer data. The Company maintains systems and processes designed to protect this data, but notwithstanding such protective measures, there is a risk of intrusion or tampering that could compromise the integrity and privacy of this data. In addition, Spin Master provides confidential and proprietary information to its third-party business partners in certain cases where doing so is necessary to conduct the Company's business. While Spin Master obtains assurances from those parties that they have systems and processes in place to protect such data, and where applicable, that they will take steps to assure the protections of such data by third parties, nonetheless those partners may also be subject to data intrusion or otherwise compromise the protection of such data. While Spin Master and its third-party business partners maintain systems for preventing and detecting a breach of their respective information technology systems, Spin Master and those third parties may be unaware that a breach has occurred and may be unable to detect an ongoing breach. Spin Master has exposure to similar security risks faced by other large companies that have data stored on their information technology systems. To its knowledge, Spin Master has not experienced any material breach of its cybersecurity systems. If Spin Master's or any third-party service providers' systems fail to operate effectively or are damaged, destroyed, or shut down, or there are problems with transitioning to upgraded or replacement systems, or there are security breaches in these systems, any of the aforementioned could occur as a result of natural disasters, software or equipment failures, telecommunications failures, loss or theft of equipment, acts of terrorism, circumvention of security systems, or other cyber-attacks, Spin Master could experience delays or decreases in product sales, and reduced efficiency of its operations. Any compromise of the confidential data of Spin Master's customers, its consumers or itself, or failure to prevent or mitigate the loss of this data could disrupt Spin Master's operations, damage its reputation, violate applicable laws and regulations and subject the Company to additional costs and liabilities and have a material and adverse impact on its business, financial condition and performance.

The challenge of continuously developing and offering products that are sought after by children is compounded by the sophistication of today's children and the increasing array of technology and entertainment offerings available to them.

Children are increasingly utilizing electronic offerings such as tablet devices and mobile phones and they are expanding their interests to a wider array of innovative, technology-driven entertainment products and digital and social media offerings at younger and younger ages. Spin Master's products compete with the offerings of consumer electronics companies, digital media and social media companies. To meet this challenge, the Company is designing and marketing products which incorporate increasing technology, seek to combine digital and analog play, and capitalize on evolving play patterns and increased consumption of digital and social media. With the increasing array of competitive entertainment offerings, there is no guarantee that:

- any of Spin Master's products, brands or entertainment properties will achieve popularity or continue to be popular;
- any property for which Spin Master has a significant license will achieve or sustain popularity;
- any new products or product lines Spin Master introduces, or entertainment content that it creates, will be considered interesting to consumers and achieve an adequate market acceptance; or
- any product's life cycle or sales quantities will be sufficient to permit Spin Master to profitably recover the development, manufacturing, marketing, royalties (including royalty advances and guarantees) and other costs of producing, marketing and selling the product.

An increasing portion of Spin Master's business may come from technologically advanced or sophisticated digital and smart technology products, which present additional challenges compared to more traditional toys and games.

Spin Master expects that children will continue to be interested in product offerings incorporating sophisticated technology, such as video games, consumer electronics and social and digital media, at younger and younger ages. Spin Master also expects that parents will seek to enhance child development and learning through digital technologies and analog and technology-based play.

In addition to the risks associated with Spin Master's more traditional products, sophisticated digital and smart technology products face certain additional risks. Costs associated with designing, developing and producing technologically advanced or sophisticated products tend to be higher than for many of Spin Master's more traditional products. Heavy competition in consumer electronics and entertainment products and difficult economic conditions may increase the risk of Spin Master not achieving sales sufficient to recover the increased costs associated with these products. Designing, developing and producing sophisticated digital and smart technology products requires different competencies and may follow longer timelines than traditional toys and games, and any delays in the design, development or production of these products could have a significant impact on Spin Master's ability to successfully offer such products. In addition, the pace of change in product offerings and consumer tastes in the video games, consumer electronics and social and digital media areas is potentially even greater than for Spin Master's more traditional products. This pace of change means that the window in which a technologically advanced or sophisticated product can achieve and maintain consumer interest may be shorter than traditional toys and games. These products may also present data security and data privacy risks and be subject to certain laws, government policies or regulations not applicable to more traditional products, such as the U.S. Children's Online Privacy Protection Act of 1998 and the EU Data Protection Directive (Directive 95/46/EC) and related national regulations.

Failure to adapt to the evolution of gaming could materially and adversely affect Spin Master's business, financial condition and performance.

Gaming requires increased innovation and a different strategy to market gaming products in order to remain successful in the gaming business in the future. Spin Master recognizes the need to provide immersive game play that is easy for consumers to learn and play in shorter periods of time, as well as offer innovative face to face, off the board and digital gaming opportunities. People are gaming in greater numbers than ever before, but the nature of gaming has and continues to evolve quickly. To be successful Spin Master's gaming offerings must evolve to anticipate and meet these changes in consumer gaming. Failure to implement a gaming strategy and to keep up with the evolution of gaming could have a material adverse effect on the Company's business, financial condition and performance.

FINANCIAL RISK MANAGEMENT

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly

identified and that the capital base is adequate in relation to these risks. The principal financial risks to which the Company is exposed are described below.

Foreign currency risk

Due to the nature of the Company's international operations, it is exposed to foreign currency risk driven by fluctuations in exchange rates. Risk arises because the value of monetary assets, liabilities, revenues and expenditures arising from transactions denominated in foreign currencies may vary due to changes in exchange rates ("transaction exposures") and because the non-US dollar denominated financial statements of the Company's subsidiaries may vary on revaluation into the US dollar presentation currency ("translation exposures"). These exposures could impact the Company's earnings and cash flows.

As part of the Company's risk management strategy, the Company uses derivative financial instruments such as foreign exchange forward contracts to manage foreign currency risk. The Company does not use derivative instruments for speculative purposes.

Interest rate risk

Interest rate risk is the risk that the Company's financial assets and liabilities will increase or decrease in value due to a change in interest rates. The Company is exposed to interest rate risk as its loan facility bears interest at a variable rate.

Credit risk and Customer Concentration

The Company is dependent on three main retailers with respect to product sales for the majority of its products. These three customers accounted for 52% and 57% of consolidated gross sales for the twelve month periods ended December 31, 2016 and 2015 respectively, as follows

As the Company usually grants credit to customers on an unsecured basis, credit risk arises from the possibility that customers may experience financial difficulty and may be unable to fulfill their financial obligations.

This risk is managed through the establishment of credit limits and payment terms based on an evaluation of the customer's financial performance, ability to generate cash, financing availability, and liquidity status. These factors are reviewed at least annually, with more frequent reviews performed as necessary.

In addition, the Company uses a variety of financial arrangements to ensure collectability of trade receivables, including requiring letters of credit, cash in advance of shipment and through the purchase of insurance on material customer receivables.

RELATED PARTY TRANSACTIONS

There were no related party transactions included in consolidated financial statements of the Company as at December 31, 2016.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in Note 2 to the fiscal 2016 audited consolidated financial statements and accompanying notes, which have been prepared in accordance with IFRS. The preparation of financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, and related disclosures and the reported amounts of revenues and expenses during the periods covered by the financial statements.

The Company has identified the following accounting policies under which significant judgments, estimates and assumptions are made, where actual results may differ from these estimates under different assumptions and conditions, and which may materially affect financial results or the financial position in future periods

Determination of cash-generating units

A cash-generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Determining the impact of impairment requires significant judgment in identifying which assets or groups of assets constitute cash-generating units of the Company.

Functional currency

Transactions in foreign currencies are translated to the respective functional currencies of Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Determining the appropriate functional currencies for entities in the Company requires analysis of various factors, including the currencies and country-specific factors that mainly influence sales prices, and the currencies that mainly influence labour, materials, and other costs of providing goods or services.

Useful life of property, plant and equipment and intangible assets with finite useful lives

The Company employs significant estimates to determine the estimated useful lives of property, plant and equipment and intangible assets with finite useful lives, considering industry trends such as technological advancements, past experience, expected use and review of asset lives.

Components of an item of property, plant and equipment may have different useful lives. The Company makes estimates when determining depreciation methods, depreciation rates and asset useful lives, which requires taking into account industry trends and company-specific factors. The Company reviews these decisions at least once each year or when circumstances change. The Company will change depreciation methods, depreciation rates or asset useful lives if they are different from previous estimates.

Impairment testing of goodwill and indefinite life intangible assets

Goodwill and indefinite life intangible assets are assessed for impairment at least annually, and whenever there is an indication that the asset may be impaired. The Company determines the fair value of its cash-generating unit groupings and indefinite life intangible assets using discounted cash flow models corroborated by other valuation techniques. The process of determining these fair values requires the Company to make estimates and assumptions of a long term nature regarding discount rates, projected revenues, royalty rates and margins, as applicable, derived from past experience, actual operating results and budgets. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

Provision for inventory

Inventories are stated at the lower of cost and estimated net realizable value. The Company estimates net realizable value as the amount at which inventories are expected to be sold, taking into consideration fluctuations in retail prices due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices.

Sales allowances

A sales allowance is established to reflect credits requested by customers relating to factors such as contractual discounts, negotiated discounts, customer audits, defective products, and costs incurred by customers to sell the Company's products. The allowance is based on specific reserves based upon the Company's evaluation of the likelihood of the outcome of sale allowance claims.

Income and other taxes

The calculation of current and deferred income taxes requires the Company to make estimates and assumptions and to exercise judgment regarding the carrying values of assets and liabilities which are subject to accounting estimates inherent in those balances, the interpretation of income tax legislation across various jurisdictions, expectations about future

operating results, the timing of reversal of temporary differences and possible audits of income tax filings by the tax authorities.

Changes or differences in underlying estimates or assumptions may result in changes to the current or deferred income tax balances on the consolidated statements of financial position, a charge or credit to income tax expense in the consolidated statement of earnings and may result in cash payments or receipts.

All income, capital and commodity tax filings are subject to audits and reassessments. Changes in interpretations or judgments may result in a change in the Company's income, capital or commodity tax provisions in the future. The amount of such a change cannot be reasonably estimated.

FUTURE CHANGES IN ACCOUNTING POLICIES

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers". These narrow scope amendments simplify accounting for revenue from contracts with customers. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, "Financial Instruments". IFRS 9 applies to classification and measurement of financial assets and replaces the multi category and measurement models of IAS 39 for debt instruments with a new mixed measurement model having only two categories of amortized cost and Fair Value Through Profit and Loss ("FVTPL").

IFRS 9 will *replace IAS 39 Financial Instruments: Recognition and Measurement*. Under IFRS 9, all recognized financial assets that are currently within the scope of IAS 39 will be measured at either amortized cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial asset. All equity instruments will be measured at fair value. A debt instrument is measured at amortized cost only if it is held to collect the contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at FVTPL. For financial liabilities designated as at FVTPL, the change in the fair value attributable to changes in the liability's credit risk is recognized in Other Comprehensive Income ("OCI") unless it gives rise to an accounting mismatch in profit or loss.

The IASB has issued new hedge accounting requirements, aligning these more closely with an entity's risk management activities. In addition, in July 2014 the IASB published the complete revision of IFRS 9, which supersedes the 2010 revision of IFRS 9. This complete revision is effective for annual periods beginning on or after January 1, 2018, with retrospective application. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

IFRS 16 Leases

In January 2016, the IASB issued a new Lease Standard, IFRS 16. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (the customer ('lessee') and the supplier ('lessor')). IFRS 16 is effective from January 1, 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 *Revenue from Contracts with Customers*. IFRS 16 completes the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases Standard, IAS 17 *Leases*, and related Interpretations. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is evaluating the impact on its financial statements.

IFRS 2 Share Based Payments

The IASB issued amendments to IFRS 2 "Share Based Payments". The amendment is intended to clarify IFRS 2 on the estimation of the fair value of cash settled share based payments. The amendments are effective for annual reporting periods beginning on or after January 1, 2018. The Company is evaluating the impact on its financial statements.

IAS 7 Statement of Cash Flows

In 2016, the IASB issued an amendment to IAS 7 "Statement of Cash Flows". The amendment is intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendment is effective for annual periods beginning on or after January 1, 2017 with earlier application permitted. The amendment is not expected to have a material impact of on the Company's consolidated financial statements.

Financial Instruments

Due to the nature of the Company's international operations, it is exposed to foreign currency risk driven by fluctuations in exchange rates. Risk arises because the value of monetary assets, liabilities, revenues and expenditures arising from transactions denominated in foreign currencies may vary due to changes in exchange rates ("transaction exposures") and because the non-US dollar denominated financial statements of the Company's subsidiaries may vary on revaluation into the US dollar presentation currency ("translation exposures"). These exposures could impact the Company's earnings and cash flows.

The Company uses derivative financial instruments such as foreign exchange forward contracts to manage foreign currency risk.

As at December 31, 2016, the Company is committed under outstanding foreign exchange contracts to purchase Canadian dollars in exchange for US dollars, representing total purchase commitments of approximately \$161,287 (2015 - \$41,692).

DISCLOSURE CONTROLS AND PROCEDURES

The Co-Chief Executive Officers and the Chief Financial Officer (the "Certifying Officers"), along with other members of management, have designed, or caused to be designed under their supervision, Disclosure Controls and Procedures ("DC&P") to provide reasonable assurance that (i) material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's DC&P as at December 31, 2016 and have concluded that the Company's DC&P was effective as at December 31, 2016 subject to the scope limitation described below.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Certifying Officers, along with other members of management, have also designed, or caused to be designed under their supervision, Internal Control over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes prepared in accordance with IFRS. The Certifying Officers have used the Internal Control – Integrated Framework (2013 COSO Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to design the Company's ICFR. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's ICFR as at December 31, 2016 and have concluded that the Company's ICFR was effective as at December 31, 2016, subject to the scope limitation described below.

There have been no changes in the Company's ICFR during the three-month period ended December 31, 2016 which have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

SPIN MASTER'S SCOPE LIMITATION ON DISCLOSURE CONTROLS AND PROCEDURES & INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management, as permitted by securities legislation, for the period ended December 31, 2016, has limited the scope of its design of DC&P and ICFR to exclude controls, policies and procedures of Swimways Industries, Inc. (US Operations), which Spin Master acquired through a wholly-owned subsidiary on August 2, 2016.

Included in Spin Master's consolidated financial statements for the twelve month period ended December 31, 2016 are the following amounts related to Swimways Industries Inc.

Consolidated Statement of Operations:

Revenue \$5,678

Net Income /(loss) (\$3,854)

Consolidated Balance Sheet

Current Assets \$25,709

Other Assets \$3,307

Current Liabilities: \$5,884

Other Liabilities : \$ 0

LIMITATIONS OF AN INTERNAL CONTROL SYSTEM

The Certifying Officers believe that any DC&P or ICFR, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met and that all control issues, including instances of fraud, if any, within the Company have been prevented or detected. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The design of any system of control is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

NON-IFRS FINANCIAL MEASURES

In addition to using financial measures prescribed under IFRS, references are made in this MD&A to “Adjusted EBITDA”, “Adjusted Net Income”, “EBITDA”, “Free Cash Flow”, “Gross Product Sales”, “Sales Allowances” and “Total Gross Sales”, which are non-IFRS financial measures. Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

Adjusted EBITDA is calculated as EBITDA excluding one time or other non-recurring items that do not necessarily reflect the Company’s underlying financial performance, including foreign exchange gains or losses, restructuring costs, IPO costs and write downs, among other items. Adjusted EBITDA is used internally as the key benchmark for incentive compensation and by management as a measure of the Company’s profitability and its ability to fund working capital requirements, investment in property, plant and equipment, and make debt repayments.

Adjusted EBITDA Margin is calculated as Adjusted EBITDA divided by revenue. Management uses Adjusted EBITDA Margin to evaluate the Company’s performance compared to internal targets and to benchmark its performance against key competitors.

Adjusted Net Income is calculated as net income excluding one time or other non-recurring items that do not necessarily reflect the Company’s underlying financial performance including foreign exchange gains or losses, restructuring costs, IPO costs and write downs, among other items and the corresponding impact these items have on income tax expense. Management uses Adjusted Net Income to understand the underlying financial performance of the business on a consistent basis over time.

EBITDA is calculated as net earnings before borrowing costs, taxes and depreciation and amortization. Management uses EBITDA internally as a measure of the Company’s profitability and to benchmark the Company against key competitors.

Free Cash Flow is calculated as cash from operations before changes in working capital less capital expenditures plus any cash used in brand or business acquisitions. Capital expenditures include expenditures on assets such as property, plant, equipment (primarily expenditures of tooling) and the production of TV properties. Management uses the Free Cash Flow metric to analyze the cash flow being generated by the Company’s business.

Gross Product Sales represent sales of the Company’s products to customers, excluding the impact of marketing, incentive and allowance sales adjustments. Changes in Gross Product Sales are discussed because, while Spin Master records the details of such Sales Allowances in its financial accounting systems at the time of sale in order to calculate revenue, such Sales Allowances are generally not associated with individual products, making revenue less meaningful when comparing its segments and geographical results to highlight trends in Spin Master’s business.

Total Gross Sales represents Gross Product Sales plus other revenue comprised of royalties and licensing fees from third parties for the use of the Company’s intellectual property on the third parties’ products and revenue generated through the distribution of the Company’s television programs as well as income from the sale of apps. Management uses Total Gross

Sales to evaluate the Company's total revenue generating capacity compared to internal targets and past performance and as a measure to understand the performance of the Company, on a monthly, quarterly and annual basis.

Sales Allowances represent marketing and sales credits requested by customers relating to factors such as co-operative advertising, contractual discounts, negotiated discounts, customer audits, volume rebates, defective products, and costs incurred by customers to sell the Company's products and are booked as a reduction to Gross Product Sales. Management uses Sales Allowances to identify and compare the cost of doing business with individual retailers, different geographic markets and amongst various distribution channels.

Management believes that Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, EBITDA, Free Cash Flow, Gross Product Sales and Total Gross Sales are important supplemental measures of operating performance and highlight trends in the core business that may not otherwise be apparent when relying solely on IFRS financial measures. Management believes that Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Net Income, EBITDA, Free Cash Flow, Gross Product Sales and Total Gross Sales allow for assessment of the Company's operating performance and financial condition on a basis that is more consistent and comparable between reporting periods.

Constant Currency represents Revenue and Gross Product Sales results that are presented excluding the impact from changes in foreign currency exchange rates. The current period and prior period results for entities reporting in currencies other than the US dollar are translated using consistent exchange rates, rather than using the actual exchange rate in effect during the respective periods. The difference between the current period and prior period results using the consistent exchange rates reflects the changes in the underlying performance results, excluding the impact from fluctuations in foreign currency exchange rates.

Reconciliation Tables

The following table presents a reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted Net Income, and Cash from (used in) Operations to Free Cash Flow for the fiscal years ended December 31, 2016, 2015 and 2014:

(in \$ thousands, except percentages)	Fiscal Years Ended, December 31,		
	2016	2015	2014
Reconciliation of Non-IFRS Financial Measures			
Net income (loss)	99,515	47,074	62,214
Income tax expense (recovery)	38,364	32,559	23,276
Finance costs	8,601	6,539	2,829
Depreciation and amortization	30,489	22,877	17,743
EBITDA (1)	176,969	109,049	106,062
Normalization Adjustments:			
Restructuring (2)	1,823	3,528	595
Recovery of contingent liability (3)	(222)	(457)	(687)
Foreign exchange loss (gain) (4)	5,530	6,477	4,905
Offering Costs (5)	—	925	900
Stock Based Compensation (6)	20,943	50,658	—
One time income from Transfer of Non Business Related Assets (7)	—	(9,690)	—
One time Service Fee income (8)	—	(5,000)	—
Impairment of Intangible Asset (9)	—	659	—
One time Legal Expense (10)	—	3,325	—
Fair Market Value adjustments (11)	—	975	—
Acquisition Related Incentive Compensation (12)	467	—	—
Adjusted EBITDA (1)	205,510	160,449	111,775
Income tax expense (recovery) (13)	38,364	21,834	23,276
Finance costs (13)	8,601	3,547	2,829
Depreciation and amortization	30,489	22,877	17,743
Tax effect of normalization adjustments (14)	7,941	13,583	1,555
Adjusted Net Income (1)	120,115	98,608	66,372
Cash from (used in) operations	73,038	55,640	123,966
Plus:			
Changes in working capital	87,220	50,044	(34,221)
Cash from (used in) operations before working capital changes	160,258	105,684	89,745
Less:			
Cash from (used in) investing	(172,273)	(93,573)	(26,221)
Plus:			
Cash used for license, brand and business acquisitions	130,705	55,038	1,292
Free Cash Flow (1)	118,690	67,149	64,816

1) See "Non-IFRS Financial Measures".

2) 2016 restructuring primarily related to organizational changes in the normal course of business. 2015 restructuring primarily related to changes to the Company's executive team. 2014 restructuring related to organizational changes in Europe only.

- 3) 2016 contingent consideration related to organizational changes in the normal course of business. In 2015 a write off of contingent consideration related to a future earn-out provision associated with the acquisition of Spy Gear occurred as sales targets were not met to achieve the additional pay out.
- 4) Transaction gains and losses generated by the effect of foreign exchange recorded on assets and liabilities denominated in a currency that differs from the functional currency of the applicable entity are recorded as foreign exchange gain or loss in the period which they occur.
- 5) Offering Costs from the IPO are considered a one time expense and are not reflective of on going costs of the business.
- 6) Stock based compensation is related to expenses associated with subordinate voting shares granted to equity participants and restricted stock units granted to employees at the time of the IPO and share option expense.
- 7) One of the predecessor corporations to the Company owned assets which are non income producing and do not relate to the business of the Company. Accordingly, the assets were transferred to the principal shareholders prior to the closing of the IPO through dividends in kind at their current fair market value.
- 8) One time service fee income is in connection with the acquisition of Cardinal and services provided to Cardinal prior to the closing of the transaction on October 2, 2015.
- 9) Impairment of Intangible asset related to Content Development.
- 10) One time legal expense related to an outstanding litigation matter in Q4 2015
- 11) Amortization of Fair Market Value adjustments relating to acquisition of Cardinal Industries Inc. in the fourth quarter of 2015
- 12) Remuneration expense associated with contingent consideration for the Swimways acquisition.
- 13) Income tax expense (recovery) and Finance Costs have been adjusted for 2015 to exclude Financial Impacts related to the settlement of certain tax matters as they are not reflective of on going costs of the business.
- 14) Tax effect of normalization adjustments (Footnotes 3-12). Normalization adjustments tax effected at the effective tax rate of the given period.

(see "Free Cash Flow" and "Selected Quarterly Financial Information" sections of the MD&A for further information)

FORWARD-LOOKING STATEMENTS

Certain statements, other than statements of historical fact, contained in this press release constitute "forward-looking information" within the meaning of certain securities laws, including the *Securities Act* (Ontario), and are based on expectations, estimates and projections as of the date on which the statements are made in this press release. The words "plans", "expects", "projected", "estimated", "forecasts", "anticipates", "indicative", "intend", "guidance", "outlook", "potential", "prospects", "seek", "strategy", "targets" or "believes", or variations of such words and phrases or statements that certain future conditions, actions, events or results "will", "may", "could", "would", "should", "might" or "can", or negative versions thereof, "be taken", "occur", "continue" or "be achieved", and other similar expressions, identify statements containing forward-looking information. Statements of forward-looking information in this press release include, without limitation, statements with respect to: the Company's outlook for 2017 (see "Outlook"); future growth expectations; financial position, cash flows and financial performance; , drivers for such growth; impact of acquisitions on future financial performance, and the successful execution of its strategies for growth; the seasonality of financial results and performance.

Forward-looking statements are necessarily based upon management's perceptions of historical trends, current conditions and expected future developments, as well as a number of specific factors and assumptions that, while considered reasonable by management as of the date on which the statements are made in this press release, are inherently subject to significant business, economic and competitive uncertainties and contingencies which could result in the forward-looking statements ultimately being incorrect. In addition to any factors and assumptions set forth above in this press release, the material factors and assumptions used to develop the forward-looking information include, but are not limited to: the expanded use of advanced technology, robotics and innovation the Company applies to its products will have a level of success consistent with its past experiences; the Company will continue to successfully secure broader licenses from third parties for major entertainment properties consistent with past practices; the expansion of sales and marketing offices in new markets will increase the sales of products in that territory; the Company will be able to successfully identify and integrate strategic acquisition opportunities; the Company will be able to maintain its distribution capabilities; the Company will be able to leverage its global platform to grow Cardinal's and Swimways' sales; the Company will be able to recognize and capitalize on opportunities earlier than its competitors; the Company will be able to continue to build and maintain strong, collaborative relationships; the Company will maintain its status as a preferred collaborator; the culture and business structure of the Company will support its growth; the current business strategies of the Company will continue to be desirable on an international platform; the Company will be able to expand its portfolio of owned branded intellectual property and successfully license it to third parties; use of advanced technology and robotics in the Company's products will expand; access of entertainment content on mobile platforms will expand; fragmentation of the market will continue to create acquisition opportunities; the Company will be able to maintain its relationships with its employees, suppliers and retailers;

the Company will continue to attract qualified personnel to support its development requirements; and the Company founders will continue to be involved in the Company and that the risk factors noted below, collectively, do not have a material impact on the Company.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. Known and unknown risk factors, many of which are beyond the control of the Company, could cause actual results to differ materially from the forward-looking information in this press release. Such risks and uncertainties include, without limitation, the factors discussed under “Risk Relating to Spin Master’s Business” and the Company’s Annual Information Form for the year ended December 31, 2016, each of which are available under the Company’s profile on SEDAR (www.sedar.com). These risk factors are not intended to represent a complete list of the factors that could affect the Company and investors are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements.

There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements are provided for the purpose of providing information about management’s expectations and plans relating to the future. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, or to explain any material difference between subsequent actual events and such forward-looking statements, except to the extent required by applicable law.

Independent Auditor's Report

To the Shareholders of Spin Master Corp.

We have audited the accompanying consolidated financial statements of Spin Master Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of operations and comprehensive income, consolidated statements of changes in equity and consolidated statements of 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 auditor's 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 in our audits 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 Spin Master Corp. as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

The image shows a handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants
March 22, 2017

Spin Master Corp.

Consolidated statements of financial position as at December 31, 2016 and December 31, 2015

(In thousands of United States dollars)	Notes	2016	2015
Assets			
Current assets			
Cash		99,416	45,713
Trade and other receivables	9	272,904	134,618
Inventories	10	79,924	49,140
Prepaid expenses		21,398	16,330
		473,642	245,801
Non-current assets			
Advance on royalties		11,695	1,523
Property, plant and equipment	11	26,996	16,096
Intangible assets	12	130,390	62,370
Goodwill	13	91,707	36,130
Deferred tax assets	8	19,002	26,363
		279,790	142,482
Total assets		753,432	388,283
Liabilities			
Current liabilities			
Trade payables and other liabilities	14	206,771	134,717
Loans and borrowings	15	158,107	3,436
Deferred revenues		5,500	6,765
Provisions	16	26,454	10,115
Interest payable		6	3,026
Income tax payable	8	12,331	17,156
		409,169	175,215
Non-current liabilities			
Loans and borrowings	15	38	46,874
Provisions	16	12,025	8,458
Other long-term liabilities		110	225
Deferred tax liabilities	8	6,411	1,192
		18,584	56,749
Total liabilities		427,753	231,964
Shareholders' equity			
Issued capital	17	670,115	589,263
Accumulated deficit		(408,406)	(507,921)
Contributed surplus		21,436	31,580
Cumulative translation account		42,534	43,397
Total shareholders' equity		325,679	156,319
Total liabilities and shareholders' equity		753,432	388,283

Approved by the Board of Directors on March 22, 2017.

The accompanying notes on pages 45 to 85 are an integral part of these consolidated financial statements.

Spin Master Corp.

Consolidated statements of operations and comprehensive income

For the years ended December 31, 2016 and December 31, 2015

(In thousands of United States dollars, except share data)	Notes	2016	2015
Revenue	4	1,154,454	879,406
Cost of sales		557,712	420,486
Gross profit		596,742	458,920
Expenses			
Selling, marketing, distribution and product development	7	243,689	183,791
Administrative expenses	7	201,008	195,909
Other (income)	5	35	(13,429)
Foreign exchange loss		5,530	6,477
Finance costs	6	8,601	6,539
Income before income tax expense		137,879	79,633
Income tax expense	8	38,364	32,559
Net income		99,515	47,074
Items that may be subsequently reclassified to net income or loss			
Foreign currency translation of subsidiary accounts		(863)	16,133
Other comprehensive income		(863)	16,133
Total comprehensive income		98,652	63,207
Comprehensive income attributable to:			
Owners of the Company		98,652	60,197
Non-controlling interests		—	3,010
		98,652	63,207
Net income attributable to:			
Owners of the Company		99,515	43,213
Non-controlling interests		—	3,861
		99,515	47,074
Earnings per share attributable to owners of the Company			
Basic	18	0.99	0.48
Diluted	18	0.99	0.48
Weighted average of common shares outstanding			
Basic	18	100,647,133	90,939,485
Diluted	18	100,702,757	90,939,485

The accompanying notes on pages 45 to 85 are an integral part of these consolidated financial statements.

Spin Master Corp.

Consolidated statements of changes in equity

For the years ended December 31, 2016 and December 31, 2015

(In thousands of United States dollars)	Note	Issued capital	Accumulated deficit	Contributed surplus	Cumulative translation account	Equity attributable to shareholders	Non-Controlling Interest	Total
Balance at January 1, 2015		1	(118,782)	1,647	26,413	(90,721)	24,496	(66,225)
Net income		—	43,212	—	—	43,212	3,861	47,073
Foreign currency translation		—	—	—	16,984	16,984	(851)	16,133
Dividends declared		—	(235,052)	—	—	(235,052)	—	(235,052)
Issuance of common stock		182,668	—	—	—	182,668	—	182,668
Corporate reorganization	17	406,594	(197,299)	—	—	209,295	(27,506)	181,789
Stock-based compensation		—	—	29,933	—	29,933	—	29,933
Total comprehensive income		589,262	(389,139)	29,933	16,984	247,040	(24,496)	222,544
Balance at December 31, 2015		589,263	(507,921)	31,580	43,397	156,319	—	156,319
Balance at January 1, 2016		589,263	(507,921)	31,580	43,397	156,319	—	156,319
Net income		—	99,515	—	—	99,515	—	99,515
Foreign currency translation		—	—	—	(863)	(863)	—	(863)
Recognition of share-based payments	17	—	—	20,943	—	20,943	—	20,943
Issuance of subordinate shares*	17	48,394	—	—	—	48,394	—	48,394
Shares released from equity participation	17	32,458	—	(31,087)	—	1,371	—	1,371
Total comprehensive income		80,852	99,515	(10,144)	(863)	169,360	—	169,360
Balance at December 31, 2016		670,115	(408,406)	21,436	42,534	325,679	—	325,679

* Net of transaction costs of \$2,587.

The accompanying notes on pages 45 to 85 are an integral part of these consolidated financial statements.

Spin Master Corp.

Consolidated statements of cash flows

For the years ended December 31, 2016 and December 31, 2015

(In thousands of United States dollars)	Notes	2016	2015
Operating activities			
Net income		99,515	47,074
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Income tax expense	8	38,364	32,559
Interest expense	6	2,833	4,597
Depreciation and amortization of non-current assets	11,12	30,490	22,877
Amortization of fair value from acquisition		—	975
Accretion expense	6, 16	2,868	—
Amortization of financing costs	6	602	466
Property, plant and equipment impairment	5	265	1,718
Gain on transfer of business related assets	5	—	(9,566)
Stock-based compensation expense	17	20,943	50,658
Changes in non-cash working capital, net	19	(87,220)	(50,044)
Changes in contingent consideration liabilities		3,567	7,785
Income taxes paid		(33,233)	(31,163)
Interest paid		(5,956)	(1,571)
Share-based compensation payments	17	—	(20,725)
Cash provided by operating activities		73,038	55,640
Investing activities			
Acquisition of property, plant and equipment	11	(24,036)	(15,240)
Acquisition of intangible assets	12	(17,542)	(29,053)
Disposal of property, plant and equipment		10	—
Business acquisitions, net of cash acquired	24	(130,705)	(49,280)
Cash provided by (used in) investing activities		(172,273)	(93,573)
Financing activities			
Proceeds from borrowings	15	204,000	152,937
Repayment of borrowings	15	(96,242)	(101,555)
Advances on loans from related parties	21	—	405
Issuance of subordinate voting shares, net of transaction costs	17	47,709	155,227
Issuance of shares over allotment, net of transaction costs	17	—	23,558
Dividends paid		—	(235,053)
Settlement of preferred shares		—	(4,683)
Payment of financing costs		—	(2,377)
Cash provided by (used in) financing activities		155,467	(11,541)
Effect of foreign currency exchange rate changes on cash		(2,529)	(6,105)
Net increase (decrease) in cash during the year		53,703	(55,579)
Cash, beginning of year		45,713	101,292
Cash, end of year		99,416	45,713

The accompanying notes on pages 45 to 85 are an integral part of these consolidated financial statements.

Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

1. Description of business

Spin Master Corp., (the “Company”), formerly SML Investments Inc., was incorporated on June 9, 2004, under the laws of the Province of Ontario, Canada. Spin Master Ltd., which was incorporated on May 9, 1994, under the laws of the Province of Ontario, Canada, is a subsidiary of the Company. The Company, through Spin Master Ltd. and its subsidiaries, is a children’s entertainment company engaged in the design, marketing and sale of entertainment products for children. The Company’s principal place of business is 121 Bloor Street East, Toronto, Canada, M4W 1A9.

The Company has three reportable operating segments: North America, Europe and Rest of World (see Note 26). The North American segment is comprised of the United States and Canada. The European segment is comprised of the United Kingdom, France, Italy, the Benelux, Germany, Austria, and Switzerland. The Rest of World segment is primarily comprised of Hong Kong, China, and Mexico, as well as all other areas of the world serviced by the Company’s distribution network.

2. Significant accounting policies

(A) Statement of compliance and basis of preparation and measurement

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). All financial information is presented in thousands of United States dollars, except as otherwise indicated.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 22, 2017.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is measured on the fair value of the consideration provided in exchange for goods and services.

(B) Application of new and revised IFRS

In May 2014, the IASB issued amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”. The amendments clarify when a method of depreciation or amortization based on revenue may be appropriate. IAS 16 clarifies that the depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate. IAS 38 establishes a rebuttable presumption that amortization of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances which are:

- Where the intangible asset is expressed as a measure of revenue; or
- Where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

The amendment is effective for annual periods beginning on or after January 1, 2016, and there is no impact to the Company’s consolidated financial statements.

In December 2014, the IASB issued amendments to IAS 1, “Presentation of Financial Statements” (“IAS 1 amendments”) The amendments address additional subtotals in the statement of financial position or statement of profit and loss and other comprehensive income. The amendments give guidance on what additional subtotals are acceptable and how they are presented. The revised guidance captures common subtotals that are not specifically required by IFRS, such as operating profit or profit before interest and tax. Additional subtotals should:

- Be made up of items recognized and measured in accordance with IFRS;
- Be presented and labeled in a manner that makes the components of the subtotal understandable;
- Be consistent from period to period; and
- Not be displayed with more prominence than the subtotals and totals specified in IAS 1.

The amendment is effective for annual periods beginning on or after January 1, 2016, and there is no impact to the Company’s consolidated financial statements.

2. Significant accounting policies (*continued*)

(B) Application of new and revised IFRS (*continued*)

In January 2016, the IASB issued an amendment to IAS 12 "Income Taxes". The IASB has concluded that the diversity in practice around the recognition of a deferred tax asset that is related to a debt instrument measured at fair value is mainly attributable to uncertainty about the application of some of the principals in IAS12. Therefore the amendments consist of some clarifying paragraphs and an illustrating example. There is no impact to the Company's consolidated financial statements.

The amendment is effective for annual periods beginning on or after January 1, 2016, and there is no impact to the Company's consolidated financial statements.

(C) Basis of preparation

The consolidated financial statements incorporate the financial statement accounts of the Company and entities controlled by the Company and its subsidiaries (Note 20) (the "Group"). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of operations and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(D) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustment against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with the relevant policy. Changes in the fair value of contingent consideration classified as equity are not recognized.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known would have affected the amounts recognized at that time.

2. Significant accounting policies (continued)

(D) Business combinations (continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is measured as the excess of the sum of the consideration transferred, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units (CGUs) (or groups of cash-generating units) that are expected to benefit from the combination.

(E) Goodwill

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit.

Any impairment loss for goodwill is recognized directly in profit or loss, and an impairment loss recognized for goodwill is not reversed in subsequent periods. On disposal of the relevant CGU, the attributed amount of goodwill is included in the determination of the profit or loss on disposal.

(F) Revenue recognition

Sale of goods

The majority of the Company's revenue is derived from the sales of toys and related products to retail customers and distributors in select international markets.

Revenue represents the fair value of the sale of goods excluding value added tax and after deduction of estimates for defective products and sales allowances relating to the sale.

Estimates for defective products and allowances to customers are made as a reduction against revenue in the period in which the related sales are recorded. Estimates are made based on contractual terms and conditions and historical data.

Revenues from the sale of goods are recognized when all the following conditions have been met and control over the goods has been transferred to the buyer.

- Significant risks and rewards of ownership of the goods have been transferred to the buyer.
- The revenues can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the company.
- Costs incurred or to be incurred in respect of the transaction can be measured reliably.

These conditions are typically met at the time the risks and rewards of ownership of the product pass to the customer.

Television Distribution, Royalty & License Sales

Television distribution sales as well as royalty and licensing revenues which allows others to use the Company's brands are recognized on an accrual basis in accordance with the substance of the relevant agreements. Revenue is measured at the fair value of the consideration received or receivable when it is probable the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be measured reliably.

These conditions are typically met in the period in which the royalty or licensing period has commenced unless there are future performance obligations that must be met or upon the delivery of the programs to the broadcaster for television distribution sales.

Customer advances on contracts, licensing and/or television distribution, are recorded in unearned revenue until all of the foregoing revenue recognition conditions have been met.

(G) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

2. Significant accounting policies (*continued*)

(G) Leases (*continued*)

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(H) Foreign currencies

The Company reports its financial results in United States Dollars; however, the functional currency of the Company is the Canadian dollar.

The assets and liabilities of foreign operations that have a functional currency different from that of the Company, including goodwill and fair value adjustments arising on acquisition, are translated into the Company's functional currency of Canadian dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in the foreign currency translation adjustment as part of other comprehensive income.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the Group entity's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. The resulting foreign currency exchange gains or losses are recognized in net income or loss.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into United States dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated in the same manner as above with exchange differences impacting other comprehensive income and accumulated in equity.

At December 31, 2016 and 2015, the functional currencies of the Groups subsidiaries included the Canadian Dollar, the Euro, the Great Britain Pound, the Hong Kong Dollar, the Mexican Peso, the Chinese Yuan, the Swedish Krona and the Australian Dollar.

(I) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net income attributable to owners of the Company by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated by dividing the net income attributable to the owners of the Company by the weighted average number common shares outstanding, if all the convertible securities were exercised during the period. Convertible securities refer to all outstanding stock options.

(J) Income taxes

Income tax expense represents the sum of the taxes currently payable and deferred taxes.

Current tax

For each entity in the Group, the tax currently payable is based on taxable income for the year. Taxable income differs from "net income before income tax expense" as reported on the consolidated statement of operations and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

2. Significant accounting policies (continued)

(J) Income taxes (continued)

Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than a business combination) of assets and liabilities in a transaction that does not affect either taxable income or accounting income. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is expected to be settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period, reflecting the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the period

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(K) Cash

Cash includes cash on hand and in banks, net of outstanding bank overdrafts.

(L) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Repair and maintenance costs are recognized in profit or loss as incurred. Depreciation is recognized so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method or declining balance method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The following are the estimated useful lives for the major classes of property, plant and equipment:

Land	Not depreciated
Buildings	30 years
Moulds, dies and tools	2 years
Office equipment	3 years
Leasehold improvements	Lesser of lease term or 5 years
Computer hardware	3 years
Machinery and equipment	30% declining balance

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognized in profit or loss.

(M) Intangible assets

The following are the estimated useful lives for the major classes of intangible assets:

Brand	Indefinite
Character trademarks	5 years
Customer relationships	5 years

Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

2. Significant accounting policies (continued)

(M) Intangible assets (continued)

Intellectual property	10 years
Non-competition agreements	1 year
Content development	1-5 years
Computer software	1 year

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if any.

Amortization is recognized on a straight-line basis over the estimated useful life of the intangible assets. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives, such as brands and trademarks that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their initial cost).

Subsequent to initial recognition, intangible assets acquired in business combinations are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Internally-generated intangible assets - research and development expenditures

Expenditures on research activities are recognized as an expense as incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset for use or sale;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditures are recognized in profit or loss in the period in which they are incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Television production assets

Television production assets are a component of intangible assets, and are recorded at cost under Content Development. Capitalized costs net of anticipated federal and provincial tax credits are charged to amortization expense as completed episodes are delivered on a pro-rata basis over the total number of episodes for the season. The federal and provincial tax credits are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the tax credits will be received.

Deferred revenue related to television production assets arises as a result of consideration received in advance of the Company fulfilling its obligation.

2. Significant accounting policies (continued)

(M) Intangible assets (continued)

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually as part of year-end procedures, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss equal to the difference between the carrying and recorded amounts is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(N) Advances on royalties

The Company enters into license agreements with inventors and licensors for the use of their intellectual properties in its products. These agreements may call for payment in advance or future payment of minimum guaranteed amounts. Amounts paid in advance are recorded as an asset and charged to the results of operations as revenue from the related products is recognized. If all, or a portion of an advance, does not appear to be recoverable through future use of the rights obtained under license, the non-recoverable portion is written-off and recognized immediately in profit or loss.

(O) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a standard cost basis, and includes the purchase price and other costs, such as import duties, taxes and transportation costs. Trade discounts and rebates are deducted from the purchase price. Net realizable value represents the estimated selling price for inventories in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale. Reserves for excess and obsolete inventory are based upon quantities on hand, projected volumes from demand forecast and net realizable value. The impact of changes in inventory reserves is reflected in cost of sales.

(P) Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of the amount expected to be required to settle the obligation, and are re-measured each reporting date.

Future royalty obligations

Where the Company is committed to pay royalties on sales of acquired brands, the future royalty obligation is measured based on the Company's estimate of the related brands future sales, discounted based on the timing of the expected payments and recorded as a provision.

Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

2. Significant accounting policies (continued)

(P) Provisions (continued)

Provision for defectives

Defectives refer to when the end consumer returns defective goods to the Company's customers. Customers without a fixed allowance for defectives are eligible for a credit for the cost of the product if returned as defective by the end consumer. The estimate of defectives is made based on the class and nature of the product and reduces the net sales figure on the consolidated statements of operations and comprehensive income.

Supplier obligations

Supplier obligations represent the estimated compensation to be paid to suppliers for lower than expected volumes purchased, resulting in the supplier having excess raw material and finished goods inventory. While payments are not contractually required, the Company regularly compensates suppliers to maintain supplier relationships, which represents a constructive obligations due to past practices. The supplier obligation is based on an estimate of the cost of the supplier's excess raw material and finished goods inventory.

Share-based payments

As part of the Company's Initial Public Offering (the "Initial Offering"), employees were granted subordinate voting shares under two arrangements; the settlement of equity participation agreements and the issuance of restricted stock units ("RSUs"). The initial Offering price multiplied by the number of shares that an employee is entitled to receive is recognized as an expense in administrative expenses, with a corresponding increase in contributed surplus over the period, at the end of which, the employees become unconditionally entitled to shares. The amount expensed is adjusted for forfeitures as required.

The Company has one share option plan for key employees, which forms part of their long-term incentive compensation plan. Under the plan, the exercise price of each option equals the market price of the Company's share on the date of grant and the options have a maximum term of ten years. Options vest between zero and four years.

(Q) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the respective instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Fair value estimates are made at the consolidated statement of financial position date based on relevant market information and information about the financial instrument. All financial instruments are classified into one of the following categories: fair value through profit or loss ("FVTPL"), held-to-maturity, loans and receivables, available-for-sale financial assets or other liabilities.

The Company has made the following classifications:

Cash	Loans and receivables
Trade and other receivables	Loans and receivables
Loans to related parties	Loans and receivables
Other long-term assets	Loans and receivables
Trade payables and other liabilities	Other liabilities
Borrowings	Other liabilities
Interest payable	Other liabilities
Preferred shares	Other liabilities
Loans from related parties	Other liabilities
Other long-term liabilities	Other liabilities
Foreign exchange forward contracts	FVTPL

2. Significant accounting policies (*continued*)

(R) Financial assets

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value plus any attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(S) Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a Company entity are recognized at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are initially measured at fair value, net of transaction costs. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method.

2. Significant accounting policies (*continued*)

(S) Financial liabilities and equity instruments

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(T) Derivative financial instruments

The Company enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risks.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss.

(U) Fair value

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(V) Fair value hierarchy and liquidity risk disclosure

The fair value of short-term financial instruments approximates their carrying amounts due to the relatively short period to maturity. These include trade and other receivables, as well as trade payables and accrued liabilities. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future.

(W) Accounting standards issued but not yet applied

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers". These narrow scope amendments simplify accounting for revenue from contracts with customers. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, "Financial Instruments". IFRS 9 applies to classification and measurement of financial assets and replaces the multi category and measurement models of IAS 39 for debt instruments with a new mixed measurement model having only two categories of amortized cost and FVTPL.

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. Under IFRS 9, all recognized financial assets that are currently within the scope of IAS 39 will be measured at either amortized cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial asset. All equity instruments will be measured at fair value. A debt instrument is measured at amortized cost only if it is held to collect the contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at FVTPL. For financial liabilities designated as at FVTPL, the change in the fair value attributable to changes in the liability's credit risk is recognized in OCI unless it gives rise to an accounting mismatch in profit or loss.

The IASB has issued new hedge accounting requirements, aligning these more closely with an entity's risk management activities. In addition, in July 2014 the IASB published the complete revision of IFRS 9, which supersedes the 2010 revision of IFRS 9. This complete revision is effective for annual periods beginning on or after January 1, 2018, with retrospective application. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

2. Significant accounting policies (*continued*)

(W) Accounting standard issued but not yet applied (*continued*)

IFRS 16 Leases

In January 2016, the IASB issued a new Lease Standard, IFRS 16. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (the customer ('lessee') and the supplier ('lessor')). IFRS 16 is effective from January 1, 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 *Revenue from Contracts with Customers*. IFRS 16 completes the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases Standard, IAS 17 *Leases*, and related Interpretations. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is evaluating the impact on its financial statements.

IFRS 2 Share Based Payments

The IASB issued amendments to IFRS 2 "Share Based Payments". The amendment is intended to clarify IFRS 2 on the estimation of the fair value of cash settled share based payments. The amendments are effective for annual reporting periods beginning on or after January 1, 2018. The Company is evaluating the impact on its financial statements.

IAS 7 Statement of Cash Flows

In 2016, the IASB issued an amendment to IAS 7 "Statement of Cash Flows". The amendment is intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendment is effective for annual periods beginning on or after January 1, 2017 with earlier application permitted. The amendment is not expected to have a material impact of on the Company's consolidated financial statements.

3. Significant accounting judgments and estimates

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

These estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, and actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, and revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The Company has identified the following judgments, apart from estimates, which management has made in the process of applying the Company's accounting policies, and which have the most significant effect on the amounts recognized in the consolidated financial statements.

(A) Determination of CGUs

A CGU is defined as is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Determining the impact of impairment requires significant judgment in identifying which assets or groups of assets CGUs of the Company.

(B) Functional currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Determining the appropriate functional currencies for entities in the Group requires analysis of various factors, including the currencies and country-specific factors that mainly influence sales prices, and the currencies that mainly influence labour, materials, and other costs of providing goods or services.

3. Significant accounting judgments and estimates *(continued)*

Significant estimates and assumptions

The Company has identified the following accounting policies under which significant judgments, estimates and assumptions are made, where actual results may differ from these estimates under different assumptions and conditions, and which may materially affect financial results or the financial position in future periods.

(A) Useful life of property, plant and equipment and intangible assets with finite useful lives

The Company employs significant estimates to determine the estimated useful lives of property, plant and equipment and intangible assets with finite useful lives, considering industry trends such as technological advancements, past experience, expected use and review of asset lives.

Components of an item of property, plant and equipment may have different useful lives. The Company makes estimates when determining depreciation methods, depreciation rates and asset useful lives, which requires taking into account industry trends and company-specific factors. The Company reviews depreciation methods, useful lives and residual values annually or when circumstances change and adjusts its depreciation methods and assumptions prospectively.

(B) Impairment testing of goodwill and indefinite life intangible assets

Goodwill and indefinite life intangible assets are assessed for impairment at least annually, and whenever there is an indication that the asset may be impaired. The Company determines the fair value of its cash-generating unit groupings and indefinite life intangible assets using discounted cash flow models corroborated by other valuation techniques. The process of determining these fair values requires the Company to make estimates and assumptions of a long term nature regarding discount rates, projected revenues, royalty rates and margins, as applicable, derived from past experience, actual operating results and budgets. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

(C) Provision for inventory

Inventories are stated at the lower of cost and estimated net realizable value. The Company estimates net realizable value as the amount at which inventories are expected to be sold, taking into consideration fluctuations in retail prices due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices.

(D) Sales allowances

A sales allowance is established to reflect credits requested by customers relating to factors such as contractual discounts, negotiated discounts, customer audits, defective products, and costs incurred by customers to sell the Company's products. The allowance is based on specific reserves based upon the Company's evaluation of the likelihood of the outcome of sales allowance claims.

(E) Income and other taxes

The calculation of current and deferred income taxes requires the Company to make estimates and assumptions and to exercise judgment regarding the carrying values of assets and liabilities which are subject to accounting estimates inherent in those balances, the interpretation of income tax legislation across various jurisdictions, expectations about future operating results, the timing of reversal of temporary differences and possible audits of income tax filings by the tax authorities.

Changes or differences in underlying estimates or assumptions may result in changes to the current or deferred income tax balances on the consolidated statements of financial position, a charge or credit to income tax expense in the consolidated statement of earnings and may result in cash payments or receipts.

All income, capital and commodity tax filings are subject to audits and reassessments. Changes in interpretations or judgments may result in a change in the Company's income, capital or commodity tax provisions in the future. The amount of such a change cannot be reasonably estimated.

Spin Master Corp.

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4. Revenue

The Company earns revenue from the following primary sources:

- Sales of toys and related products; and
- Royalties and licensing fees received for the use of intellectual property and the distribution of television programs ("Other revenue")

Year ended December 31	2016	2015
Revenue from the sale of goods	1,106,514	860,189
Other revenue	47,940	19,217
Total revenue	1,154,454	879,406

5. Other (income) expense

Year ended December 31	2016	2015
Impairment of non-current assets (see notes 11,12)	265	1,718
Revaluation of provisions	(222)	(457)
Service fees	—	(5,051)
Gain on transfer of non-business related assets	—	(9,566)
Other	(8)	(73)
Total other (income) expense	35	(13,429)

Service fees

Associated with the acquisition of Cardinal Industries, Inc. ("Cardinal") in 2015 as described in Note 24, the Company received approximately \$5,051 in service fees in connection with services provided to Cardinal prior to the acquisition date.

Gain on transfer of non-business related assets

Prior to the closing of the initial public offering ("Initial Offering") in 2015, one of the predecessor corporations to the Company owned non-business related assets which were transferred at their fair value to the principal shareholders. The non-business assets previously had no carrying value for financial reporting purposes. The aggregate amount of the dividend-in-kind and related gain on transfer totaled \$9,566.

6. Finance costs

Year ended December 31	2016	2015
Interest on bank loans	2,833	915
Interest related to income tax assessments	—	2,992
Bank fees	2,228	1,476
Accretion expense	2,868	673
Amortization of financing costs	602	466
Other	70	17
Total finance costs	8,601	6,539

7. Costs included within expenses

Included within operating expenses are the following research and development costs, depreciation expense and employee benefit expenses.

Research and development costs

Year ended December 31	2016	2015
Research and development costs	22,017	15,486
Total research and development costs	22,017	15,486

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Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

7. Costs included within expenses (continued)

Depreciation expense

Year ended December 31	2016	2015
Depreciation and amortization included in cost of sales	23,680	20,926
Depreciation and amortization included in administrative expenses	6,810	1,951
Total depreciation expenses	30,490	22,877

Employee benefits expense

Year ended December 31	2016	2015
Salaries, wages, and bonuses	3,856	1,823
Other employee benefits	683	284
Total employee benefits expenses in cost of sales	4,539	2,107
Salaries, wages, and bonuses	99,473	80,894
Share-based payments	20,943	50,658
Termination benefits	1,823	3,528
Other employee benefits	14,236	9,816
Total employee benefits expenses in administrative costs	136,475	144,896
Total employee benefits expenses	141,014	147,003

Selling, marketing, distribution and product development

Year ended December 31	2016	2015
Selling	77,102	55,604
Marketing expenses	112,339	91,152
Distribution	32,231	21,646
Product development	22,017	15,486
Other	—	(97)
Total selling, marketing, distribution and product development	243,689	183,791

Administrative expenses

Year ended December 31	2016	2015
Staff costs	136,474	144,896
Technology	5,131	3,743
Professional services	19,482	15,190
Property and operations	22,496	17,519
Depreciation of property, plant and equipment (excluding Tooling)	6,896	7,109
Other	10,529	7,452
Total administrative expenses	201,008	195,909

Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

8. Income taxes

Income tax recognized in profit or loss

Year ended December 31	2016	2015
Current tax expense	28,354	32,862
Deferred tax expense	10,010	(303)
Total income tax expense	38,364	32,559

The income tax expense for the year can be reconciled to the accounting profit as follows:

Year ended December 31	2016	2015
Net income before income taxes	137,879	79,633
Statutory tax rate (26.5%)	36,538	21,103
Adjustments		
Effect of expenses that are not deductible in determining taxable profit	1,471	2,236
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	277	1,015
Effect of previously unrecognized unused tax losses and deductible temporary differences now recognized as deferred tax assets	(187)	(113)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(3,976)	(1,873)
Effect of tax settlement with the Canada Revenue Agency on transfer pricing matter	(153)	10,508
Other	4,394	(317)
Total income tax expense	38,364	32,559

The tax rates used for the reconciliations above are the domestic corporate tax rates payable by corporate entities in the Group, on taxable profits under tax law in the respective jurisdictions in which the Company operates.

Current tax assets and liabilities

As at December 31	2016	2015
Income tax payable	12,331	17,156
Total income tax payable	12,331	17,156

Deferred tax balances

The following is the analysis of deferred tax assets and liabilities presented in the consolidated statement of financial position:

As at December 31	2016	2015
Deferred tax assets	19,002	26,363
Deferred tax liabilities	(6,411)	(1,192)
Net deferred tax asset	12,591	25,171

Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

8. Income taxes (continued)

Recognized deferred tax assets and liabilities

As at December 31	2015	Recognized in Profit or loss	Recognized in in equity	Recognized in Acquisitions/ Disposals	2016
Deferred tax assets (liabilities) in relation to					
Property, plant and equipment	1,172	40	—	(108)	1,104
Intangible assets	492	(517)	685	(4,650)	(3,990)
Provisions	5,158	(135)	(2)	—	5,021
Allowance for doubtful accounts	150	110	—	—	260
	6,972	(502)	683	(4,758)	2,395
Tax losses	19,110	(9,566)	(6)	—	9,538
Other	(911)	58	—	1,511	658
Total deferred tax	25,171	(10,010)	677	(3,247)	12,591

Unrecognized deductible temporary differences and unused tax losses

As at December 31	2016	2015
Tax losses	1,919	1,694
Others	2,139	1,426
Total deductible temporary difference and unused tax losses	4,058	3,120

The unused tax losses will expire commencing in 2023.

Unrecognized taxable temporary differences associated with investments

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities were not recognized as at December 31, 2016, is \$182,708 (2015 - \$120,142).

9. Trade and other receivables

As at December 31	2016	2015
Trade receivables	307,051	190,271
Provisions for sales allowances	(79,261)	(66,123)
Allowance for doubtful accounts	(2,684)	(1,245)
	225,106	122,903
Other receivables	47,798	11,715
Total net trade and other receivables	272,904	134,618

Trade receivables disclosed above include amounts that are past due at the end of the reporting period for which the Company has not recognized an allowance because there has not been a significant change in credit quality and the amounts are still considered recoverable.

Trade receivables past due but not impaired

As at December 31	2016	2015
60-90 days	7,077	6,391
91-120 days	3,031	2,335
> 120 days	34,244	19,575
Total trade receivables past due but not impaired	44,352	28,301

Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

9. Trade and other receivables (continued)

Movement in the allowance for doubtful accounts

As at December 31	2016	2015
Balance at the beginning of the year	1,245	914
Impairment losses recognized on receivables	2,058	946
Amounts written off during the year as uncollectible	(409)	(548)
Impairment losses reversed	(237)	—
Foreign exchange translation	27	(67)
Total as at December 31, 2016	2,684	1,245

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

10. Inventories

As at December 31	2016	2015
Raw materials	2,408	1,774
Finished goods	77,516	47,366
Total inventories	79,924	49,140

The cost of inventories recognized as an expense in cost of sales during the year was \$501,551 (2015 - \$368,418).

During 2016, \$9,423 of inventories was written down to net realizable value (2015 - \$2,780). This charge is included within cost of sales in the consolidated statements of operations and comprehensive income.

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Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

11. Property, plant and equipment

	Moulds, dies and tools	Equipment *	Property **	Computer hardware	Total
Cost					
Balance, December 31, 2014	71,208	7,202	6,817	7,920	93,147
Additions	13,754	341	197	948	15,240
Asset retirements	(2,249)	(21)	—	(186)	(2,456)
Foreign currency translation	(2,552)	(743)	(607)	(791)	(4,693)
Other	—	10	13	2	25
Total at December 31, 2015	80,161	6,789	6,420	7,893	101,263
Balance at December 31, 2015	80,161	6,789	6,420	7,893	101,263
Additions	19,574	2,470	1,517	475	24,036
Asset retirements	(1,317)	(2)	(27)	(19)	(1,365)
Asset Impairments	(854)	(343)	(230)	(150)	(1,577)
Assets recognized upon acquisition	1,205	6,548	1,930	244	9,927
Foreign currency translation	(2,885)	(61)	(157)	(28)	(3,131)
Total at December 31, 2016	95,884	15,401	9,453	8,415	129,153

* Equipment includes office equipment, machinery, and equipment

** Property includes land, building and leasehold improvements

	Moulds, dies and tools	Equipment *	Property **	Computer hardware	Total
Accumulated depreciation					
Balance, December 31, 2014	(63,669)	(6,242)	(5,277)	(6,715)	(81,903)
Depreciation	(6,592)	(324)	(120)	(526)	(7,562)
Asset retirements	2,249	21	—	186	2,456
Asset Impairments	(1,059)	—	—	—	(1,059)
Foreign currency translation	1,300	827	467	321	2,915
Other	—	—	(8)	(6)	(14)
Total at December 31, 2015	(67,771)	(5,718)	(4,938)	(6,740)	(85,167)
Balance at December 31, 2015	(67,771)	(5,718)	(4,938)	(6,740)	(85,167)
Depreciation	(11,417)	(1,644)	(299)	(446)	(13,806)
Asset retirements	1,312	2	22	19	1,355
Asset Impairments	616	338	209	149	1,312
Assets recognized upon acquisition	(80)	(4,124)	(1,359)	(52)	(5,615)
Foreign currency translation	321	(82)	(45)	(430)	(236)
Total at December 31, 2016	(77,019)	(11,228)	(6,410)	(7,500)	(102,157)

* Equipment includes office equipment, machinery, and equipment

** Property includes land, building and leasehold improvements

Net carrying amount

Balance at December 31, 2015	12,390	1,071	1,482	1,153	16,096
Balance at December 31, 2016	18,865	4,173	3,043	915	26,996

For the year ended December 31, 2016, the Company recorded \$265 (2015 - \$1,059) of impairment losses in respect of 8 CGUs (2015 - 13). Impairment losses are recorded where the carrying amount of the CGU exceeds its recoverable amount. The recoverable amount was based the CGU's value in use.

Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

12. Intangible assets

	Brands Indefinite	Trademarks, licenses & customer lists Definite	Content development	Computer software	Total
Cost					
Balance, December 31, 2014	27,258	—	26,342	20,569	74,169
Additions	2,658	3,100	21,791	1,461	29,010
Asset Acquisitions via business combinations	8,100	10,400	—	—	18,500
Foreign currency translation	(4,065)	—	(5,411)	(3,546)	(13,022)
Total at December 31, 2015	33,951	13,500	42,722	18,484	108,657
Balance, December 31, 2015	33,951	13,500	42,722	18,484	108,657
Additions	—	62	15,390	2,090	17,542
Disposals	—	—	—	(288)	(288)
Asset acquisitions via business combinations	44,480	20,747	852	—	66,079
Foreign currency translation	1,542	195	1,979	477	4,193
Total at December 31, 2016	79,973	34,504	60,943	20,763	196,183
Accumulated amortization					
Balance, December 31, 2014	—	—	(18,071)	(18,848)	(36,919)
Impairment losses	—	—	(659)	—	(659)
Amortization	—	(402)	(14,334)	(579)	(15,315)
Foreign currency translation	—	—	3,376	3,230	6,606
Total at December 31, 2015	—	(402)	(29,688)	(16,197)	(46,287)
Balance, December 31, 2015	—	(402)	(29,688)	(16,197)	(46,287)
Amortization	—	(2,713)	(12,263)	(1,708)	(16,684)
Disposal	—	—	—	288	288
Foreign currency translation	(302)	25	(1,935)	(898)	(3,110)
Total at December 31, 2016	(302)	(3,090)	(43,886)	(18,515)	(65,793)
Net carrying amount					
Balance at December 31, 2015	33,951	13,098	13,034	2,287	62,370
Balance at December 31, 2016	79,671	31,414	17,057	2,248	130,390

Indefinite life intangibles have been allocated for impairment testing purposes to the following cash-generating units determined by brands:

- The 'Wild Planet' brand has been allocated to the 'Spy Gear' cash-generating unit;
- The 'Meccano' brand has been allocated to the 'Meccano Brand' cash-generating unit;
- The 'Imagination Games', 'Head Bandz', 'Boom Boom Balloon', 'Catch a Bubble', 'Bellz', 'EG Games' and 'Cardinal' brands have been allocated to the 'Games and Puzzles' cash-generating unit;
- The 'Swimways' brand has been allocated to the 'Swimways' cash-generating unit;
- The 'Toca Boca' and 'Sago Mini' brands have been allocated to the 'Toca Boca' cash-generating unit; and
- The 'Etch A Sketch' brand has been allocated to the 'Etch A Sketch' cash-generating unit.

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Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

12. Intangible assets (continued)

Impairment losses

For the year ended December 31, 2016, the Company recorded \$nil (2015 - \$659) of impairment losses in respect of nil CGUs (2015 - 13). Impairment losses are recorded where the carrying amount of the CGU exceeds its recoverable amount. The recoverable amount was based on the CGUs value in use.

The recoverable amount of the CGUs is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period and a pre tax discount rate of 11.1% per annum (2015: 15.0.0% per annum).

Cash flow projections during the budget period are based on the same expected gross margins and raw materials price inflation throughout the budget period. The cash flows beyond the five-year period have been extrapolated using a steady 1.0% (2015: 0%) per annum growth rate which is the projected long-term average growth rate. Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGUs.

The carrying amount of indefinite life intangible assets, comprised of brands and trademarks, was allocated to these cash-generating units as follows:

As at December 31	2016	2015
Spy Gear	7,577	7,577
Meccano Brand	2,221	2,221
Games and Puzzles	25,393	24,153
Swimways	24,690	—
Toca Boca	13,000	—
Etch A Sketch	6,790	—
Total	79,671	33,951

13. Goodwill

As at December 31	2016	2015
Balance, beginning of year	36,130	3,847
Additions during the period	55,806	32,564
Foreign currency translation	(229)	(281)
Total goodwill	91,707	36,130

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

- The 'Feva' business has been allocated to the 'Spin Master UK' cash-generating unit;
- The 'Meccano' business has been allocated to the 'Meccano Brand' cash-generating unit;
- The 'X Concepts (Tech Deck)' business has been allocated to the 'Tech Deck' cash-generating unit;
- The 'Cardinal' and 'EG Games' businesses have been allocated to the 'Games and Puzzles' cash-generating unit;
- The 'Swimways' business has been allocated to the 'Swimways' cash-generating unit;
- The 'Toca Boca' business has been allocated to the 'Toca Boca' cash-generating unit; and
- The 'Etch A Sketch' business has been allocated to the 'Etch A Sketch' cash-generating unit.

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13. Goodwill (continued)

The carrying amount of goodwill was allocated to these CGUs as follows:

As at December 31	2016	2015
Spin Master UK	215	215
Meccano Brand	2,145	2,145
Tech Deck	1,206	1,206
Games and Puzzles	35,264	32,564
Etch A Sketch	3,933	-
Toca Boca	11,492	-
Swimways	37,452	-
Total goodwill	91,707	36,130

There have been no impairment losses recognized with respect to goodwill during 2016 (2015 - \$nil).

14. Trade payables and other liabilities

As at December 31	2016	2015
Trade payables	92,171	55,656
Accrued liabilities	114,600	79,061
Total trade payables and other liabilities	206,771	134,717

15. Loans and borrowings

As at December 31	2016	2015
Unsecured debt (at amortized cost)		
Loans from other entities (i)	215	489
	215	489
Secured debt (at amortized cost)		
Bank facilities (ii) and (iii) and (iv)	160,831	51,797
	161,046	52,286
Less:		
Financing costs	2,901	1,976
Total loans and borrowings	158,145	50,310
Current	158,107	3,436
Non-current	38	46,874
Total loans and borrowings	158,145	50,310

- (i) Fixed rate loans with Région Nord-Pas de Calais, Cap Calais and OSEO related to Meccano operations in France, with remaining maturity periods not exceeding 3 years (2015 - 3 years). The weighted average effective interest rate on the loans is 1.06% per annum (2015 - 1.08% per annum).
- (ii) Variable rate secured facility with maximum borrowings of \$4,281 to finance television production costs through one of the Company's production entities. The interest rate on amounts drawn under the facility bear interest at a variable rate referenced to the lending institution's Canadian dollar prime rate. Amounts outstanding are due prior to July, 2017.

The obligation under the facility is secured through a general security agreement over the production company's assets and by a guarantee by the parent company of the Production Company.

As at December 31, 2016, the Company had \$1,640 outstanding (December 31, 2015 - \$2,797) on the obligation.

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15. Loans and borrowings (continued)

On December 21, 2016, the Company's Revolving Credit Facility and Term Credit Facility were restructured into a single five-year secured revolving facility (the "Facility"), and the total capital available was increased from \$280 million to \$510 million. The new maturity date of the Facility is December 2021. Advances under the Revolving Credit Facility may be used for general corporate purposes including refinancing existing Indebtedness, funding working capital requirements, permitted acquisitions and permitted distributions.

(iv) Available borrowing options under the Facility include:

- Prime Rate Loans;
- Base Rate Loans;
- Bankers' Acceptances from BA Lenders with a maturity of thirty (30), sixty (60), ninety (90) or one hundred and eighty (180) days, subject to availability;
- BA Equivalent Loans from the Non-BA Lenders with a maturity of thirty (30) , sixty (60), ninety (90) or one hundred and eighty (180) days, subject to availability;
- LIBOR Loans with an Interest Period of one (1), two (2), three (3) or six (6) months, subject to availability;
- Swing Loans; or
- Letters of Credit

The obligation under the Facility is secured by a general security and pledge agreement in respect of all present and future personal property, assets and undertaking of the credit parties. This facility is subject to the maintenance of the following financial covenants:

- Total Leverage Ratio, defined as the ratio of (a) Total Debt at such time, to (b) EBITDA for the applicable twelve-month period, is calculated on a quarterly basis, of 3.00 to 1.00 or less, provided that, in the event the Borrower used proceeds of a Borrowing to complete a single Permitted Acquisition with aggregate consideration greater than \$100,000, during any two consecutive fiscal quarters falling within the twelve-month reporting period immediately following such Permitted Acquisition, the Borrower must only maintain the Total Leverage Ratio 3.50 to 1.00 or less; and
- Interest Coverage Ratio, calculated on a consolidated, rolling four quarter basis, at 3.00:1.00 or greater.

Company was in compliance with the Total Leverage and Fixed Charge Coverage Ratio covenants as at December 31, 2016 and 2015.

As at December 31, 2016, the Company had utilized \$160,912 (2015 - \$49,000) of its Facility: \$159,190 drawn in LIBOR Loans and \$1,722 (2015 - \$1,136) drawn in letters of credit.

16. Provisions and contingent liabilities

As at December 31	2016	2015
Defectives (i)	10,943	6,038
Royalties (ii)	29	584
Supplier liabilities (iii)	5,202	3,493
Contingent consideration, acquisitions (iv)	22,305	8,458
Total provisions	38,479	18,573
Current	26,454	10,115
Non-current	12,025	8,458
Total Provisions	38,479	18,573

Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

16. Provisions and contingent liabilities (continued)

	Defectives	Royalties	Supplier liabilities	Contingent consideration, acquisitions	Total
As at December 31, 2014	8,205	1,298	1,692	—	11,195
Provisions recognized	6,038	—	4,193	7,785	18,016
Accretion recognized	—	—	—	673	673
Reductions arising from payments	(8,205)	(257)	(2,392)	—	(10,854)
Revaluation of provisions	—	(457)	—	—	(457)
As at December 31, 2015	6,038	584	3,493	8,458	18,573
As at December 31, 2015	6,038	584	3,493	8,458	18,573
Provisions recognized	10,943	—	1,709	11,892	24,544
Accretion	—	—	—	2,868	2,868
Reductions arising from payments	(6,038)	(334)	—	(861)	(7,233)
Revaluation of provisions	—	(221)	—	(52)	(273)
As at December 31, 2016	10,943	29	5,202	22,305	38,479

Provisions

- (i) Defectives refer to when the end consumer returns faulty goods to the Company's customers. Customers without a fixed allowance for defectives are eligible for a credit for the cost of the product if returned as defective by the end consumer. The estimate of defectives is made based on the class and nature of the product and reduces the net sales figure on the statements of operations and comprehensive income.
- (ii) During 2012, the Company acquired a number of brands in an asset acquisition. As part of the purchase price, the Company committed to pay royalties on sales of those brands until November 21, 2016. The future royalty obligation was estimated based on the Company's estimate of the related brands' future sales.
- (iii) Supplier obligations represent the estimated compensation to be paid to suppliers for lower than expected volumes purchased, resulting in the supplier having excess raw material and finished goods inventory. While payments are not legally required, the Company will regularly compensate suppliers to maintain supplier relationships. The supplier obligation is based on the Company's estimate of the cost of the supplier's excess raw material and finished goods inventory. The provision for supplier obligations is recorded in Cost of Sales on the consolidated statements of operations and comprehensive income.
- (iv) The Company took part in several business combinations as described in Note 24 which includes an earn-out payable over the next five calendar years. The fair value of the total contingent consideration on December 31, 2016 was \$22,305 (2015 - \$8,458) and is based on the achievement of certain financial performance criteria. The accretion of the earn-out is recorded in other (income) expense on the consolidated statements of operations and comprehensive income.

The Company is involved in various routine legal proceedings incidental to the ordinary course of its business. The Company believes that the outcome of all pending legal proceedings in the aggregate is not reasonably likely to have a material adverse effect on the Company's business, financial condition and/or its results of operations. However, in light of the uncertainties involved in legal proceedings generally, the ultimate outcome of a particular matter could be material to the Company's operating results for a particular period depending on, among other things, the size of the loss or the nature of the liability imposed and the level of the Company's income for that particular period.

17. Issued capital

(a) Authorized as at December 31, 2016 and 2015

- Unlimited number of Multiple voting shares;
- Unlimited number of Subordinate voting shares; and
- Unlimited number of Preferred shares issuable in series.

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17. Issued capital (continued)

As at December 31	2016	2015
Multiple voting shares	406,595	406,595
Subordinate voting shares	263,520	182,668
Total capital issued and outstanding	670,115	589,263

As at December 31	Number of shares	Number of shares
Multiple voting shares	77,230,812	79,680,812
Subordinate voting shares	24,445,309	19,612,423
Total capital issued and outstanding	101,676,121	99,293,235

Issued and outstanding

On June 6, 2016, the Company closed the public offering of 4,900,000 subordinate voting shares at a price of \$20.69 per subordinate voting share (the "Secondary Offering"). The Secondary Offering included a treasury offering of 2,450,000 subordinate voting shares by the Company for gross proceeds of \$50,691 and a secondary offering of 2,450,000 subordinate voting shares, satisfied by the exchange of multiple voting shares by the founders of the Company. The Company incurred \$2,587 of issuance costs, which is deducted from share capital in accordance with IAS 32, Financial Instruments: Presentation.

During 2015, the Company completed the Initial Offering. As part of that Initial Offering, 12,225,000 Subordinate voting shares were issued at a price of \$12.98 for gross proceeds, before expenses of \$159 million. As part of the Initial Offering, the underwriters were granted an over-allotment option exercisable at their sole discretion at any time, in whole or in part, for a period of 30 days after the closing of the Initial Offering, to purchase from the Company, at the Initial Offering price, up to an additional 1,833,750 Subordinate voting shares. On August 26, 2015, the over-allotment option granted to the underwriters was exercised in full, generating additional gross proceeds to Spin Master of \$24 million.

Immediately prior to the Company's Initial Offering, a reorganization of the Company and its subsidiaries was completed, resulting in the exchange of Class A1, Class A2 and Class Y preference shares held by the principal shareholders for Multiple voting shares. The completion of this reorganization also resulted in the elimination of the previously recognized non-controlling interest. Class X1 and X2 preference shares were redeemed by the Company and settled in cash.

(b) Share-based plans

Participation arrangements

The Company had equity participation arrangements ("Participation Arrangements") with nine senior employees and one former employee pursuant to which they were entitled to receive a cash payment and shares on the initial public offering of the Company. The Participation Arrangements served to reward the past service, and to encourage retention. The terms of the Participation Arrangements differ between participants with vesting participants being entitled to some or all of their shares between six months and six years following the Initial Offering.

The Company satisfied the participants' entitlements by making a one-time cash payment to participants and by issuing an aggregate 4,790,178 Subordinate voting shares immediately prior to the closing of the Initial Offering. The compensation expense for the Participation Arrangements is calculated based on the fair value of each Participation Arrangement, as determined by the value of the Company at the closing of the Initial Offering, less the value of the cash settlement. The Company recognizes compensation expense over the vesting period of the Participation Arrangements, which is between six months and six years.

As of December 31, 2016, 2,473,228 Subordinate voting shares have vested with a fair value of \$59,229 (December 31, 2015 - \$nil).

Restricted Share Units ("RSUs")

In connection with the Initial Offering, the Company issued RSUs at a value of \$10,500 to all of its current employees (other than the participants under the Participation Arrangements and employees in China).

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17. Issued capital (continued)

The RSUs served to reward past service of the employees and align the interests of the employees with those of the Company. The RSUs were settled with Subordinate voting shares that fully vested on the first anniversary of the closing of the Initial Offering. Upon vesting of the RSUs, the Company issued approximately 693,057 Subordinate voting shares. Only employees that were employed on the settlement date received Subordinate voting shares.

The Company classified the RSUs as equity instruments as the Company had the ability and intent to settle the awards with Subordinate voting shares. The compensation expense for RSUs is calculated based on the fair value of each RSU as determined by the closing value of the Company's Subordinate voting shares on the business day of the grant date. The Company recognized compensation expense over the vesting period of the RSU.

(c) Compensation expense

The expense recognized for employees services received during the year is shown in the following table:

	2016	2015
Expense arising from equity-settled "Participation Agreement" transactions	14,270	25,558
Expense arising from cash-settled "Participation Agreement" transactions	—	20,725
Expense arising from equity-settled "RSU" transactions	5,949	4,375
Expense arising from share options	724	—
Total stock based compensation expense	20,943	50,658

Compensation expense of \$20,943 (2015 - \$50,658) is recorded in administrative expenses within the consolidated statement of operations. A corresponding entry is booked to contributed surplus for the equity settled awards of \$20,456 (2015 - \$29,933) with the remainder being settled through cash during the year.

Upon completion of the Initial Offering, the Company immediately incurred compensation expense of \$38,670 in respect of the Participation Arrangements. This amount was included in the Company's financial results for the year ended December 31, 2015. In addition, the Company expected to incur additional expenses of \$42,836 in its financial statements over the six-year period following the closing of the offering on a graded basis of which \$7,613 was included in the Company's results for the year ended December 31, 2015. In total, the Company recognized \$46,283 of compensation expense in its financial results for 2015 related to the Participation Arrangements. In 2016 the company incurred \$14,507 in respect Participation arrangements.

In 2016, the company incurred compensation expense of \$5,949 its financial results for RSU equity awards granted. The Company also incurred \$4,375 of compensation expense in its financial results for 2015 for the RSU equity awards granted.

A summary of the Participation Arrangements and RSU activity since December 31, 2015 is shown below:

	Participation Agreement		RSUs	
	Number	Weighted average grant date fair value	Number	Weighted average grant date fair value
Granted during the year	4,790,178	65,877	763,495	10,500
Balance at December 31, 2015	4,790,178	65,877	763,495	10,500
Forfeited	(51,140)	(703)	(15,974)	(220)
Balance at December 31, 2016	4,739,038	65,174	747,521	10,280

The weighted average remaining contractual life for Participation Arrangements outstanding as at December 31, 2016 is 24 months and for the RSUs outstanding as at December 31, 2016 is 7 months.

(d) Share Purchase Options ("Options")

The Company has one share option plan for key employees, which forms part of their long-term incentive compensation plan. Under the plan, the exercise price of each option equals the market price of the Company's share on the date of grant and the options have a maximum term of ten years. Options vest between zero and four years.

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17. Issued capital (continued)

The following is a summary of the activity of the outstanding share purchase options:

	Number of options	Weighted average exercise price (CAD)
Balance as at December 31, 2015	—	—
Granted during the year	346,148	22.94
Balance as at December 31, 2016	346,148	22.94

18. Earnings per share

Details of the calculations of earnings per share are set out below:

	2016		2015	
	Weighted average number of shares	Per common share amount (\$)	Weighted average number of shares	Per common share amount (\$)
Basic	100,647,133	0.99	90,939,485	0.48
Diluted	101,702,757	0.99	90,939,485	0.48

The Participation Arrangements and RSUs issued to employees as Subordinate voting shares resulted in the issuance of fewer multiple voting shares to the principal shareholders. These shares issuances are anti-dilutive and are, therefore, not included in the computation of diluted earnings per share.

19. Change in working capital, net

	2016	2015
(Increase) decrease in:		
Trade and other receivables	(128,448)	(37,614)
Inventories	(39,205)	(1,005)
Prepaid expenses	(6,731)	(11,856)
Advances on royalties	(10,140)	(1,695)
	(184,524)	(52,170)
Increase (decrease) in:		
Trade payables and other liabilities	68,320	(402)
Advances from related parties	—	15
Deferred revenues	(1,265)	3,593
Provisions	30,249	(1,080)
Other	—	—
	97,304	2,126
Total net change in working capital	(87,220)	(50,044)

20. Investments in subsidiaries

The table below provides a summary of the Company's subsidiaries as at December 31, 2016. Unless otherwise stated, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly or indirectly by the Company, and the proportion of ownership interests held is equal to the voting rights held by the shareholders of the Company. The country of incorporation corresponds to the below noted principal place of operations.

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20. Investment in subsidiaries (continued)

Entity	Country	2016	2015
		%	%
Spin Master Ltd.	Canada	100.0	100.0
Spin Master Film Productions Inc.	Canada	100.0	100.0
Spin Master Paw Productions Inc.	Canada	100.0	100.0
Spin Master Paw 2 Production Inc.	Canada	100.0	100.0
Spin Master Paw 3 Production Inc.	Canada	100.0	100.0
Spin Master Paw 4 Production Inc.	Canada	100.0	100.0
Spin Master Film Distribution Inc.	Canada	100.0	100.0
Spin Master Charming Production Inc.	Canada	100.0	100.0
Spin Master Charming 2 Production Inc.	Canada	100.0	100.0
Spin Master Dig It Productions Inc.	Canada	100.0	100.0
Spin Master Riveting Productions Inc.	Canada	100.0	100.0
Spin Master Hatching Productions Inc.	Canada	100.0	100.0
Spin Master Acquisition Inc.	Canada	100.0	100.0
Sago Sago Toys Inc.	Canada	100.0	—
Spin Master Mexico S.S de C.V	Mexico	100.0	100.0
Spin Master Mexico Services S.A de C.V	Mexico	100.0	100.0
Spin Master US Holdings Inc.	United States	100.0	100.0
Spin Master Inc.	United States	100.0	100.0
Spin Master Studios Inc.	United States	100.0	100.0
Bluesquare Innovation Inc.	United States	100.0	100.0
Cardinal Industries Inc.	United States	100.0	100.0
Swimways Corp	United States	100.0	—
Toca Boca Inc.	United States	100.0	—
Spin Master US Finance Co.	United States	100.0	—
Spin Master US 7 LLC.	United States	100.0	—
Spin Master Acquisition Co.	United States	100.0	—
Spin Master Far East Services Ltd.	Hong Kong	100.0	—
Spin Master Toys Far East Limited	Hong Kong	100.0	100.0
Swimways Hong Kong Company Ltd.	Hong Kong	100.0	—
Red Bird HK Ltd.	Hong Kong	100.0	100.0
Guangzhou Swimways Trading Co. Ltd.	China	100.0	—
Spin Master Dongguan Technical Consultancy Servicing Co.Ltd	China	100.0	100.0
Spin Master Japan Ltd.	Japan	100.0	100.0
Spin Master Europe Holdings SARL	Luxembourg	100.0	100.0
Spin Master International SARL	Luxembourg	100.0	100.0
Spin Master Toys UK Limited	United Kingdom	100.0	100.0
Spin Master France SAS	France	100.0	100.0
Meccano SA	France	100.0	100.0
Toba Boca AB	Sweden	100.0	—
Spin Master Australia Ltd.	Australia	100.0	—

Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

21. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Immediately before the closing of the Company's Initial Offering on July 30, 2015 a series of transactions were undertaken to distribute non-business assets and funds to Ronnen Harary, Anton Rabie and Ben Varadi (collectively, the "Principal Shareholders") and to create the Company's post-Offering share capital structure (the "Reorganization.")

There were no related party transactions included in consolidated financial statements of the Company as at December 31, 2016.

The following related party transactions are included in the consolidated financial statements of the Company as at December 31, 2015:

(a) *Transfer of non-business related assets*

In 2015 prior to the closing of the Initial Offering, one of the predecessor corporations to the Company owned non-business related assets, which were transferred at their fair value to the principal shareholders. The non-business assets previously had no carrying value for the financial reporting purposes. The aggregate amount of the dividend-in-kind and related gain on transfer totaled \$9,566.

(b) *Preferred shares redemption*

In 2015, the company redeemed the outstanding Class X1 Preferred Shares and the Class X2 Preferred shares in exchange for \$4,683 in cash.

(c) *Amalgamation*

In 2015, the Company amalgamated the SML Investments 2008 Inc. and Varadi Bee Corp. The predecessor corporations were all non-active corporations indirectly owned the Principal Shareholders.

(d) *Dividends to principal shareholders*

In 2015, following the amalgamation, the Company paid dividends to the Principal Shareholders in the aggregate of \$235,053. The dividends were paid from cash, after accounting for set off against existing indebtedness owing by Principal Shareholders for the Company, from proceeds of the Offering and by drawing down on the credit facilities immediately following the closing of the Initial Offering.

No guarantees were given or received. No expense was recognized in the current or prior years for bad or doubtful debts in respect of the amounts owed by related parties. These entities were related parties by virtue of being owned by Principal Shareholders of the company, or members of key management personnel.

Compensation of key management personnel

The remuneration of directors and other key management personnel during the year was as follows:

Year ended December 31	2016	2015
Salary and short-term benefits	5,293	15,321
Other long-term benefits	1,548	641
Share based compensation	9,155	5,040
Total compensation of key management personnel	15,996	21,002

Spin Master Corp.

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22. Operating leases

Operating leases relate primarily to the leasing of offices and related office equipment, and have been entered into with lease terms of between two and ten years in length.

Payments recognized as an expense

Year ended December 31	2016	2015
Minimum lease payments	7,099	5,390
Total minimum lease payments	7,099	5,390

23. Commitments for expenditures

As at December 31, 2016, the Company had minimum guarantees to licensors of approximately \$32,092 (2015 - \$34,586).

Non-cancellable operating lease commitments

As at December 31	2016	2015
No later than 1 year	6,784	6,475
Later than 1 year and no later than 5 years	16,097	12,779
Later than 5 years	—	4,277
Total lease commitments	22,881	23,531

24. Business combinations

Acquisition of Swimways Corporation (“Swimways”)

On August 2, 2016, the Company acquired Swimways, a privately held Company headquartered in Virginia Beach, Virginia with offices in Guangzhou, China and a manufacturing and distribution facility in Tarboro, North Carolina. Swimways has a diverse portfolio of toys, games, and sporting goods for the pool, beach and backyard which will complement the Company's existing products and drive sales throughout the year, outside of the seasonality traditionally associated with toys and games. Pursuant to the terms set forth in the agreement, the Company acquired control of Swimways through the acquisition of 100% of the shares of Swimways for total cash consideration of \$85 million on closing, less an escrow for possible adjustments. In addition, the Company agreed to pay an earn-out of up to \$8.5 million based on Swimways sales growth over four years. The potential payments for the first two years of the earn-out are included in the total purchase consideration, whereas the payments related to the latter two years of the earn-out are recognized separately from the business combination transaction because they are contingent upon the continued employment with the acquired entity.

Where the deferred consideration is contingent upon continued employment, it is recognized separately from the business combination transaction and treated as remuneration within administrative expenses in the period of performance. At each balance sheet date, the contingent deferred consideration balance comprises of the accrual for unsettled remuneration which has been expensed as at that date. For the period ended December 31, 2016, the Company recorded \$466 in administrative expenses and a corresponding liability related to deferred consideration for post-acquisition services.

Included in the total purchase consideration of \$91,376 is \$5,220 related to the estimated fair value of the deferred payments included in the earn-out which are not contingent upon continuing employment. The total purchase consideration has been allocated to identifiable intangible assets based on their estimated fair values of \$33,800 (related to brands and intellectual property), \$37,452 of goodwill acquired and \$20,124 of net tangible assets acquired. The Company is in the process of finalizing the valuation of the assets acquired and liabilities assumed which may result in adjustments to the values presented and a corresponding adjustment to goodwill. The Company incurred \$800 in transaction related costs which have all been included in administrative expenses in the consolidated statement of operations and comprehensive income for the year ended December 31, 2016.

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Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

24. Business combinations (continued)

Acquisition of Swimways Corporation (“Swimways”) (continued)

Assets acquired and liabilities recognized at the date of acquisition

	Fair value as at August 2, 2016
Assets acquired	
Cash	760
Trade and other receivables	13,205
Inventories	6,345
Prepaid expenses	687
Property, plant and equipment	3,059
Intangible assets	33,800
Other assets	273
	58,129
Liabilities assumed	
Trade payables and accrued liabilities	4,205
	4,205
Fair value of identifiable net assets acquired	53,924

The trade and other receivables acquired (which principally comprised trade receivables) in this transaction with a fair value of \$13,205 had gross contractual amounts of \$13,205.

Goodwill arising on acquisition

	Total
Consideration transferred, including deferred payments	91,376
Fair value of identifiable net assets acquired	(53,924)
Goodwill arising from transaction	37,452

Goodwill arose on the acquisition of Swimways because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. As at the date of acquisition, \$37,452 of goodwill is expected to be deductible for income tax purposes and is amortized over 15 years.

The consideration transferred includes \$5,220 in deferred payments. The deferred payment is payable to the vendor upon the achievement of key performance indicators over a two year period. The potential undiscounted amount of all future payments that the Company could be required to make under the contingent consideration arrangement is between \$0 and \$5,500.

Net cash outflow on acquisition

	Total
Consideration paid in cash	89,332
Less: receivable relating to closing net debt and working capital	(3,176)
Less: cash balance acquired	(760)
Net cash outflow	85,396

Impact of acquisition on the results of the Company

Included in the Company's financial results for the year ended December 31, 2016 is \$16,870 in revenues and \$2,450 in net losses, attributable to the Swimways acquisition. On a proforma basis (unaudited), had this acquisition been completed on January 1, 2016, the Company's total revenue and net loss for the year would have amounted to \$1,239,244 and \$100,658, respectively. Management considers these 'pro-forma' estimates to represent an approximate measure of the performance of the combined Company on an annualized basis.

Spin Master Corp.

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24. Business combinations (continued)

Acquisition of Toca Boca and Sago Mini companies ("Toca Boca")

On May 2, 2016, the Company acquired Toca Boca, a privately held Company with offices in Stockholm, San Francisco, New York and Toronto, from Bonnier Group of Sweden, pursuant to a share purchase agreement. Toca Boca, is a play studio that makes digital toys and creates mobile applications for kids aged 2-9, focusing on the pre-school segment. The acquisition will allow the Company to develop a leadership position in the mobile application space for kids. Pursuant to the terms set forth in the agreement, the Company obtained control of Toca Boca through the acquisition of 100% of the shares of Toca Boca for total cash consideration of \$30,839.

Included in the total purchase consideration of \$32,098 is \$833 of deferred payments and \$426 of working capital adjustments. The total purchase consideration of \$32,098 has been allocated to identifiable intangible assets based on their estimated fair values of \$23,202 (related to brands and trademarks), \$7,184 of goodwill acquired and \$453 of net tangible assets acquired.

The determination of the final values of the assets acquired and liabilities assumed may result in adjustments to the values presented and a corresponding adjustment to goodwill. The pro forma and actual results of operations for this acquisition have not been presented and are immaterial. The Company incurred \$500 in transaction related costs which have all been included in administrative expense in the consolidated statement of operations and comprehensive income for the year ended December 31, 2016.

Assets acquired and liabilities recognized at the date of acquisition

	Fair value as at May 2, 2016
Assets acquired	
Trade and other receivables	1,072
Inventories	251
Prepaid expenses	283
Property, plant and equipment	467
Intangible assets	23,202
Deferred tax assets	1,193
Other assets	163
	26,631
Liabilities assumed	
Trade payables and accrued liabilities	733
Other liabilities	984
	1,717
Fair value of identifiable net assets acquired	24,914

The trade and other receivables acquired (which principally comprised trade receivables) in this transaction with a fair value of \$1,072 had gross contractual amounts of \$1,072.

Goodwill arising on acquisition

	Total
Consideration transferred, including deferred payments	32,098
Fair value of identifiable net assets acquired	(24,914)
Goodwill arising from transaction	7,184

Goodwill arose on the acquisition of Toca Boca because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. As at the date of acquisition, \$7,184 of the goodwill is expected to be deductible for income tax purposes and is amortized over 15 years.

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24. Business combinations (continued)

Acquisition of Toca Boca and Sago Mini companies ("Toca Boca") (continued)

The consideration transferred includes \$833 related to the estimated fair value of the deferred payments as at the acquisition date. The deferred payment is payable to the vendor upon the achievement of key performance indicators over a five year period. The potential undiscounted amount of all future payments the Company could be required to make under the contingent consideration arrangement is between \$0 and \$4,000.

Net cash outflow on acquisition

	Total
Consideration paid in cash	30,839
Net cash outflow	30,839

Acquisition of assets of Editrice Giochi SRL ("EG Games")

On March 11, 2016, the Company acquired EG Games, a privately held company headquartered in Italy, pursuant to a share purchase agreement. EG Games specializes in producing and selling board games. The acquisition builds upon the Company's substantial presence and will strengthen its position as a leader in the Games market in Europe.

Pursuant to the terms set forth in the agreement, the Company obtained control of EG Games through the acquisition of 100% of the net assets of EG Games for total cash consideration of \$5,000, of which \$2,900 was due on closing, including an indemnity escrow amount of \$435 held for 3 years after closing and \$2,100 in Deferred Payments. Deferred Payments are to be paid into escrow quarterly over the next 7 years based on 6.5% of Gross Sales up to a maximum payment of \$2,100 and is to be paid to the vendor on the 7th anniversary of the Closing date subject to set-off rights. In addition, the Company agreed to pay additional cash consideration of \$500 if the aggregate gross sales during the five year period commencing from the acquisition date reaches a specified target.

Included in the total purchase consideration of \$5,111 is \$1,671 relating to the estimated fair value of the deferred payments and \$310 related to the estimated fair value of the additional cash consideration as at the acquisition date. The total purchase consideration has been initially allocated to identifiable intangible assets based on their estimated fair values of \$1,983 (related to brands and trademarks), and \$2,700 of goodwill acquired. Additionally, \$428 of net tangible assets were acquired. These assets are included in the Activities, Games & Puzzles, and Fun Furniture product category, belonging to the Europe segment effective March 11, 2016. The pro forma and actual results of operations for this acquisition have not been presented and are immaterial. The Company incurred \$199 in transaction related costs which have all be included in administrative expenses in the consolidated statement of operations and comprehensive income for the year-ended December 31, 2016.

Assets acquired and liabilities recognized at the date of acquisition

	Fair value as at March 11, 2016
Assets acquired	
Cash	105
Trade and other receivables	138
Inventories	671
Intangible assets	1,983
	2,897
Liabilities assumed	
Trade payables and accrued liabilities	486
	486
Fair value of identifiable net assets acquired	2,411

The trade and other receivables acquired (which principally comprised trade receivables) in this transaction with a fair value of \$138 had gross contractual amounts of \$138.

Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

24. Business combinations (continued)

Acquisition of assets of Editrice Giochi SRL ("EG Games") (continued)

Goodwill arising on acquisition

	Total
Consideration transferred, including deferred payments	5,111
Fair value of identifiable net assets acquired	(2,411)
Goodwill arising from transaction	2,700

Goodwill arose on the acquisition of EG Games because the cost of the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. Goodwill recognized is not expected to be deductible for income tax purposes.

Net cash outflow on acquisition

	Total
Consideration paid in cash	3,144
Cash balances acquired	(105)
Net cash outflow	3,039

Acquisition of assets of Etch A Sketch

On February 11, 2016, the Company acquired the rights to the brands of Etch A Sketch and Doodle Sketch ("Etch A Sketch"), pursuant to an asset purchase agreement with the Ohio Art Company. The acquisition will complement the Company's existing products and builds on its reputation for acquiring legacy brands and infusing them with unexpected innovation. The Company obtained control of Etch A Sketch through the acquisition of all brand-related patents, trademarks, and inventory for the brands for total cash consideration of \$8,950, including an indemnity escrow amount of \$850. In addition, the Company agreed to pay a royalty between 2-4% based on future revenues for 8 years from the date of closing up with a minimum royalty payment of \$3,150 up to a maximum of \$8,150.

Included in the total purchase consideration of \$11,074 is \$2,124 related to the estimated fair value of the future royalty payments as at the acquisition date. The total purchase consideration has been initially allocated to identifiable intangible assets based on their estimated fair values of \$6,790 (related to brands and trademarks), and \$3,712 of goodwill acquired. Additionally, \$572 of net tangible assets were acquired. These assets are included in the Activities, Games & Puzzles, and Fun Furniture product category effective February 11, 2016. The pro forma and actual results of operations for this acquisition have not been presented because they are not material. The Company incurred \$57 in transaction related costs which have all been included in administrative expenses in the consolidated statement of operations and comprehensive income for the year ended December 31, 2016.

Assets acquired at the date of acquisition

	Fair value as at February 11, 2016
Assets acquired	
Inventories	572
Intangible assets	6,790
Fair value of identifiable net assets acquired	7,362

Spin Master Corp.

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24. Business combinations (continued)

Acquisition of assets of Etch A Sketch (continued)

Goodwill arising on acquisition

	Total
Consideration transferred, including present value of royalty payments	11,074
Fair value of identifiable net assets acquired	(7,362)
Post-closing purchase price adjustment	275
Goodwill arising from transaction	3,987

Goodwill arose on the acquisition of the Etch A Sketch brand because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. As at the date of acquisition, \$3,987 of the goodwill is expected to be deductible for income tax purposes and is amortized at 7% declining balance.

Net cash outflow on acquisition

	Total
Consideration paid in cash	8,950
Net cash outflow	8,950

Prior year acquisitions

Acquisition of Cardinal Industries Inc.

On October 2, 2015, the Company acquired Cardinal, a privately-held U.S. company headquartered in Long Island City, New York, pursuant to a share purchase agreement. Cardinal is a toy company specializing in producing and selling games and puzzles which complements the Company's existing product, builds upon the Company's substantial presence and will strengthen its position as a leader in the Games market. Pursuant to the terms set forth in the agreement, the Company obtained control of Cardinal through the acquisition of 100% of the issued and outstanding common shares of Cardinal for total cash consideration of \$50,000, less an indemnity escrow of \$1,250 held for one-year after closing. In addition, the Company agreed to pay an earn-out of up to an aggregate amount of \$19,500 in cash over the five calendar years following the acquisition based on the achievement of certain EBITDA targets. The Cardinal acquisition was financed through the Company's existing Credit Facility.

Including the estimated fair value of future earn out payments, the total purchase consideration of \$58,100 million was allocated to net tangible assets acquired based on their estimated fair value of \$7,000, identifiable intangible assets (primarily related to the trademarks and customer lists) of \$18,500, and \$32,600 of goodwill. The fair values of the identifiable intangible assets related to trade names were based on the relief from royalty method, using Level 3 inputs within the fair value hierarchy, which included forecasted future cash flows, long-term revenue growth rates, royalty rates, and discount rates.

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24. Business combinations (continued)

Acquisition of Cardinal Industries Inc. (continued)

Assets acquired and liabilities recognized at the date of acquisition

	Fair value as at October 2, 2016
Assets acquired	
Cash	720
Trade and other receivables	14,928
Inventories	9,415
Prepaid expenses	446
Intangible assets	18,500
	44,009
Liabilities assumed	
Trade payables and accrued liabilities	18,485
	18,485
Fair value of identifiable net assets acquired	25,524

The trade and other receivables acquired (which principally comprised trade receivables) in this transaction with a fair value of \$14,928 had gross contractual amounts of \$17,551. The best estimate at the acquisition date of the contractual cash flows not expected to be collected amounted to \$2,623.

Goodwill arising on acquisition

	Total
Consideration transferred, including estimated earn out payments	58,089
Fair value of identifiable net assets acquired	(25,524)
Goodwill arising from transaction	32,565

Goodwill arose on the acquisition of Cardinal Industries Inc. because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Cardinal. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. As at the date of acquisition, \$32,565 of the goodwill was expected to be deductible for income tax purposes and was amortized over 15 years.

Net cash outflow on acquisition

	Total
Consideration paid in cash	50,000
Less: cash balances acquired	(720)
Net cash outflow	49,280

Impact of acquisition on the results of the Company

Included in the Company's revenue and net income for the year ended December 31, 2015 is \$31,002 and \$3,909, respectively, attributable to the acquisition. On a pro forma basis (unaudited), had this acquisition been completed on January 1, 2015, the Company's total revenue and income for the year would have amounted to \$969,739 and \$59,069, respectively. Management considers these 'pro-forma' numbers to represent an approximate measure of the performance of the combined Company on an annualized basis.

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25. Financial instruments and risk management

Capital management

Management includes the following items in its definition of capital:

	2016	2015
Capital components		
Short-term borrowings	158,107	3,436
Non-current borrowings	38	46,874
Total debt	158,145	50,310
Issued Capital	670,115	589,263
Contributed Surplus	21,436	31,580
Accumulated Deficit	(408,406)	(507,921)
Total capital	441,290	163,232

The Company makes adjustments to its capital based on the funds available to the Company, in order to support the operations of the business and in order to ensure that the entities in the Company will be able to continue as going concerns, while maximizing the return to stakeholders through the optimization of the debt and equity balances.

The Company manages its capital structure, and makes adjustments to it in light of changes in economic conditions. In order to maintain or modify the capital structure, the Company may arrange new debt with existing or new lenders, or obtain additional financing through other means.

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable. There were no changes in the Company's approach to capital management during the years ended December 31, 2016.

The Company is subject to capital requirements under the credit facility agreement, as described in Note 15. As at December 31, 2016, the Company was in compliance with all financial covenants.

Financial risk management objectives

Management's objective is to protect the Company and its subsidiaries on a consolidated basis against material economic exposures, and the variability of results from various financial risks that include foreign currency risk, interest rate risk, credit risk, and liquidity risk.

Market risk

Foreign currency risk

Due to the nature of the Company's international operations, it is exposed to foreign currency risk driven by fluctuations in exchange rates. Risk arises because the value of monetary assets, liabilities, revenues and expenditures arising from transactions denominated in foreign currencies may vary due to changes in exchange rates ("transaction exposures") and because the non-US dollar denominated financial statements of the Company's subsidiaries may vary on revaluation into the US dollar presentation currency ("translation exposures"). These exposures could impact the Company's earnings and cash flows.

The Company uses derivative financial instruments such as foreign exchange forward contracts to manage foreign currency risk.

As at December 31, 2016, the Company is committed under outstanding foreign exchange contracts to purchase Canadian dollars in exchange for US dollars, representing total purchase commitments of approximately \$162,777 (2015 - \$41,692).

Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

25. Financial instruments and risk management (continued)

The consolidated statements of financial position include the following amounts (by denomination) presented in United States dollars:

	2016	2015
Financial Assets		
United States Dollars	161,090	121,579
Canadian Dollars	10,027	8,306
Euros	91,696	31,026
Pound	39,598	5,154
Peso	21,266	14,266
Total Assets	323,677	180,331
Financial Liabilities		
United States dollars	293,838	164,795
Canadian dollars	58,687	6,945
Euros	8,183	12,260
Pound	7,366	1,524
Peso	2,537	2,715
Total Liabilities	370,611	188,239

Foreign currency risk - sensitivity analysis

The Company is mainly exposed to the Canadian dollar and the Euro. A sensitivity rate of 5% is used when reporting foreign currency risk internally to key management personnel, and represents management's assessment of the reasonably possible change in foreign exchange rates to which the Company is exposed.

For the year ended December 31, 2016, a 5% strengthening of the above currencies against the United States dollar would have resulted in a decrease to net assets of \$4,086 (2015 - an decrease to net assets of \$1,681).

The sensitivity analysis includes only outstanding foreign currency denominated monetary assets and liabilities, and adjusts their translation at the reporting period for a 5% change in foreign currency rates.

Interest rate risk - management

Interest rate risk is the risk that the Company's financial assets and liabilities will increase or decrease in value due to a change in interest rates. The Company is exposed to interest rate risk as its loan facility bears interest at a variable rate.

Interest rate risk - sensitivity analysis

The Company is exposed to interest rate risk on financial instruments. A sensitivity rate of 50 basis points is used when reporting interest rate risk internally to key management personnel, and represents management's assessment of the reasonably possible change in interest rates to which the Company is exposed.

For floating rate liabilities, the analysis below assumes the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year.

For the year ended December 31, 2016, with all other variables held constant, a 50 basis point increase in interest rates would have resulted in a decrease to net income for the year of \$600 (2015 - a decrease to net income of \$178). This is mainly attributable to the Company's exposure to interest rate on its variable rate borrowings.

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25. Financial instruments and risk management (continued)

Credit risk

As the Company usually grants credit to customers on an unsecured basis, credit risk arises from the possibility that customers may experience financial difficulty and may be unable to fulfill their financial obligations.

This risk is managed through the establishment of credit limits and payment terms based on an evaluation of the customer's financial performance, ability to generate cash, financing availability, and liquidity status. These factors are reviewed at least annually, with more frequent reviews performed as necessary.

In addition, the Company uses a variety of financial arrangements to ensure collectability of trade receivables, including requiring letters of credit, cash in advance of shipment and through the purchase of insurance on material customer receivables.

As at December 31, 2016, approximately 43% (2015 - 39%) of the Company's trade receivable are from three major retail customers, and these three major customers represent approximately 52% of gross product sales for the year ended December 31, 2016 (2015 - 57%). Substantially all of these customers were covered by credit insurance.

The Company mitigates credit risk on its cash balance by ensuring all deposits are with financial institutions with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

The following details the Company's remaining contractual maturities for its financial liabilities with contractual repayment periods. The tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay, including both interest and principal cash flows.

To the extent that interest rates are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Company may be required to pay.

	Less than 1 year	1 year to Greater than 5 years	Greater than 5 years	2016 Total
Trade payables and other liabilities	206,771	—	—	206,771
Other long-term liabilities	—	110	—	110
Loans and borrowings	158,107	38	—	158,145
Provisions	26,454	12,025	—	38,479
Total as at December 31	391,332	12,173	—	403,505

	Less than 1 year	1 year to Greater than 5 years	Greater than 5 years	2015 Total
Trade payables and other liabilities	134,717	—	—	134,717
Other long-term liabilities	—	225	—	225
Loan and borrowings	3,436	46,874	—	50,310
Provisions	10,115	8,458	—	18,573
Total as at December 31	148,268	55,557	—	203,825

Financing facilities

	2016	2015
Secured bank loan facilities		
Amount used	160,831	50,136
Amount unused	343,450	227,764
Total as at December 31	504,281	277,900

Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

25. Financial instruments and risk management (continued)

Fair value measurements

With the exception of foreign exchange forward contracts, the Company does not currently record any financial assets or liabilities at fair value in the financial statements. The carrying amounts of those financial assets and liabilities approximate their fair values.

The fair value of foreign exchange forward contracts represented a liability as at December 31, 2016 of \$78 (2015 - \$755) recorded in other liabilities. These fair values are categorized within Level 2 of the fair value hierarchy. The fair value of foreign exchange contracts is estimated based on forward exchange rates observable at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

26. Segment information

Spin Master's portfolio includes children's products, brands and entertainment properties which are grouped into five major product categories as follows:

- (i) Activities, games & puzzles and fun furniture
- (ii) Remote control and interactive characters
- (iii) Boys action and high-tech construction
- (iv) Pre-school and girls
- (v) Outdoor

Information reported to the Chief Operating Decision Maker ("CODM") for the purposes of resource allocation and assessment of segment performance focuses on geographical areas rather than by product category. The directors of the Company have chosen to organize the Company around the following operating segments: (i) North America, (ii) Europe, and (iii) Rest of World. Factors considered in determining the operating segments include the nature of the Company's business activities, the management structure directly accountable to the CODM, availability of discrete financial information, and strategic priorities within the organizational structure.

Segment revenue and results

The following table shows of the Company's revenue and results from continuing operations by reportable segment.

	2016	2015
Revenue by segment		
North America	847,278	692,242
Europe	271,130	183,786
Rest of world	136,150	106,665
Gross product sales	1,254,558	982,693
Other revenue and sales allowances	(100,104)	(103,287)
Total consolidated revenue	1,154,454	879,406
Segment income		
North America	65,022	22,454
Europe	65,455	37,408
Rest of world	44,314	33,442
Total segment income	174,791	93,304
Corporate and other	(36,912)	(13,671)
Net income before taxes	137,879	79,633

Revenues for North America include revenues attributable to Canada of \$31,001 and \$54,154, for 2016 and 2015, respectively.

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year (2015 - \$nil). The Company does not include sales adjustments such as trade discounts and other allowances in the calculation of segment revenues ("referred to as gross product sales").

Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

26. Segment information (continued)

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 2. Segment income represents income before tax earned by each segment without allocation of other income and expenses, foreign exchange loss (gain), and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Segment assets

As at December 31	2016	2015
Assets		
North America	571,267	228,999
Europe	105,561	60,304
Rest of world	37,596	20,537
Total segment assets	714,424	309,840
Corporate and other	39,008	78,443
Total consolidated assets	753,432	388,283

A breakdown of non-current assets by location of assets are detailed as follows:

As at December 31	2016	2015
Non-current assets		
North America	140,880	54,939
Europe	10,519	4,490
Rest of world	6,042	4,529
Total segment non-current assets	157,441	63,958
Corporate and other	122,349	78,524
Total consolidated non-current assets	279,790	142,482

Non-current assets for North America include non-current assets attributable to Canada of \$68,902 and \$50,744 for the years ending December 31, 2016 and December 31, 2015 respectively.

Segment liabilities

As at December 31	2016	2015
Liabilities		
North America	220,317	192,236
Europe	25,116	17,977
Rest of world	15,518	8,391
Total segment liabilities	260,951	218,604
Corporate and other	166,802	13,360
Total consolidated liabilities	427,753	231,964

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than deferred tax assets, other long-term assets and computer software. Goodwill is allocated to cash generating units as described in Note 13. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and
- all liabilities are allocated to reportable segments other than royalties payable included within trade payables and accrued liabilities, deferred tax liabilities and preferred shares. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2016 and December 31, 2015

26. Segment information (continued)

Depreciation and amortization by segment

Year ended December 31	2016	2015
Depreciation and amortization by segment		
North America	24,193	20,229
Europe	3,100	1,539
Rest of world	1,808	862
Total segment depreciation	29,101	22,630
Corporate and other	1,389	247
Total consolidated depreciation	30,490	22,877

In addition to the depreciation and amortization reported above, impairment losses of \$265 (2015 - \$1,718) were recognized in respect of property, plant and equipment and intangible assets. These impairment losses were attributable to the following reportable segments:

Year ended December 31	2016	2015
Impairment losses recognized for the year		
North America	—	1,406
Europe	—	205
Rest of world	265	107
Total impairment losses	265	1,718

Revenue from major product categories

The following is an analysis of the Company's worldwide revenues from continuing operations based on its major product categories:

Year ended December 31	2016	2015
Revenue from product categories		
Activities, games & puzzles, & fun furniture	337,768	231,433
Remote control & interactive characters	282,777	233,294
Boys action & high-tech construction	154,454	192,304
Pre-school & girls	460,484	325,662
Outdoor	19,075	—
Gross product sales	1,254,558	982,693
Other revenues and sales allowances	(100,104)	(103,287)
Total revenues	1,154,454	879,406

Major customers

Sales to the Company's largest customers accounted for 52% and 57% of consolidated gross product sales for 2016 and 2015 respectively, as follows:

Year ended December 31	2016	2015
Revenue		
Wal-Mart	303,952	241,532
Toys "R" Us	193,343	164,585
Target	154,119	157,684
Total	651,414	563,801



Shareholder Information

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Toronto Stock Exchange Listing

Trading symbol: TOY
Securities listed: Subordinate Voting Shares

Registrar and Transfer Agent

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Auditors

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Annual Meeting of Shareholders

May 12, 2017
Blake, Cassels & Graydon LLP
199 Bay Street, Suite 4000
Toronto, ON M5L 1A9

Investor Contact Information

Email: investor.relations@spinmaster.com

Board of Directors

Anton Rabie, Chairman
John Cassaday, Lead Director
Jeffrey I. Cohen
Ben Gadbois
Ronnen Harary
Dina Howell
Todd Tappin
Ben Varadi
Charles Winograd

Executive Officers

(From Left to Right)
Ronnen Harary, Co-Chief Executive Officer
Anton Rabie, Co-Chief Executive Officer
Adam Beder, Executive Vice President of Global Licensing and Business Affairs
Mark Segal, Executive Vice President and Chief Financial Officer
Christopher Beardall, Executive Vice President of Global Sales
Ben Gadbois, Global President & Chief Operating Officer
Ben Varadi, Executive Vice President and Chief Creative Officer
Bill Hess, Executive Vice President of Operations & Chief Information Officer
Christopher Harr, Executive Vice President and General Counsel, Corporate Secretary
Nancy Zwiers, Executive Vice President and Chief Marketing Officer

Forward-Looking Statements

Certain statements, other than statements of historical fact, contained in this document constitute "forward-looking information" within the meaning of certain securities laws, including the *Securities Act* (Ontario). Forward-looking statements include, without limitation, statements with respect to: our growth strategies and objectives; innovation; development of new properties; international sales expansion; acquisitions; partnering with others; new products and entertainment properties to be introduced in 2017 and beyond. The words "believe", "expects", "focus", "plans", "potential", "strategy" or "vision", or variations of such words and phrases or statements that certain future conditions, actions, events or results "can", "will" or "would", or negative versions thereof, "continue" or "achieve", and other similar expressions, frequently identify forward-looking statements. Forward-looking statements are necessarily based upon our perception of historical trends, current conditions and expected future developments, as well as a number of specific factors and assumptions that, while considered reasonable by us as of the date on which the statements are made in this document, are inherently subject to significant uncertainties and contingencies which could result in them being incorrect. The material factors and assumptions used to develop the forward-looking information include, but are not limited to: the expanded use of advanced technology, robotics and innovation the Company applies to its products will have a level of success consistent with its past experiences; the Company will continue to successfully secure broader licenses from third parties for major entertainment properties consistent with past practices; the expansion of sales and marketing offices in new markets will increase the sales of products in that territory; the Company will be able to successfully identify and integrate strategic acquisition opportunities; our ability to maintain our distribution capabilities; our ability to recognize and capitalize on opportunities earlier than our competitors; our ability to continue to build and maintain strong, collaborative relationships; our status as a preferred collaborator; our culture and business structure will support our growth; our current business strategies will continue to be desirable on an international platform; the ability to expand our portfolio of owned branded intellectual property and successfully license it to third parties; the expanded use of advanced technology and robotics in our products; the increased access of entertainment content on mobile platforms; fragmentation of the market creates acquisition opportunities; our ability to maintain our relationships with employees, suppliers and retailers; our ability to continue to attract qualified personnel to support our development requirements; the continued involvement of the founders; and that the risk factors noted below, collectively, do not have a material impact on us. By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, and that objectives, strategic goals and priorities will not be achieved. Known and unknown risk factors, many of which are beyond our control, could cause actual results to differ materially from the forward-looking information in this document. Such factors include, without limitation, the following, which are discussed in greater detail in the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2016: creation of original products, brands and entertainment properties; industry competition; failure of third-party owners to maintain or enforce IP licenses; failure to market or advertise products; dependence on the Company's founders and other key personnel; product line growth; failure to protect or enforce the Company's IP rights; failure to realize the full benefit of the Company's licenses; relationships with inventors and entertainment content collaborators; future acquisitions, mergers or dispositions; dependence on third-party manufacturers and distributors; sales concentration with retailers; general economic conditions; failure to leverage the Company's portfolio of brands and products across entertainment and media platforms; broadcast entertainment industry conditions; seasonality; international sales growth strategy; uncertainty as a result of the recent U.S. presidential election; production and sale of private-label toys; product recalls, repairs, product liability claims and the absence or cost of insurance; litigation; implementation and timing of launches; delivery of raw materials, parts and components from suppliers or increase in the price of supplies; safety procedures; negative publicity and product reviews; interest rates and the availability of credit; system of internal controls; tax and regulatory compliance; withholding obligations with respect to equity participation arrangements; laws and government regulations; currency exchange rates; website system failures; electronic data compromises; failure to stay competitive amongst an increasing array of technology and entertainment offerings; the increase in technologically advanced or sophisticated digital and smart technology products; and failure to stay competitive given the evolution of gaming. These risk factors are not intended to represent a complete list of the factors that could affect us and investors are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements are provided for the purpose of providing information about our expectations and plans relating to the future. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, or to explain any material difference between subsequent actual events and such forward-looking statements, except to the extent required by applicable law. All forward-looking statements in this document are qualified by these cautionary statements.



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