



**SPIN MASTER CORP.  
2017 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 40% in the medium term

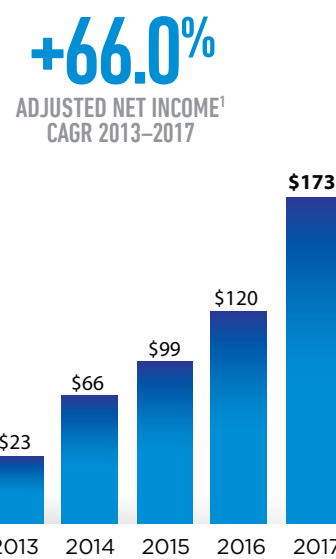
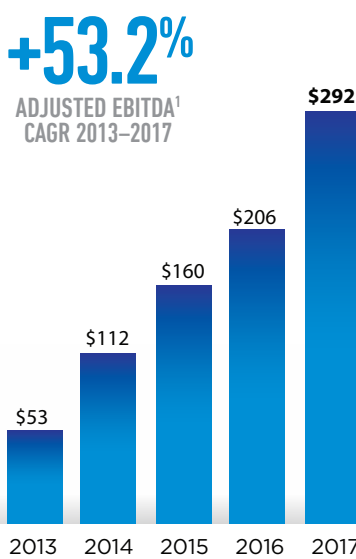
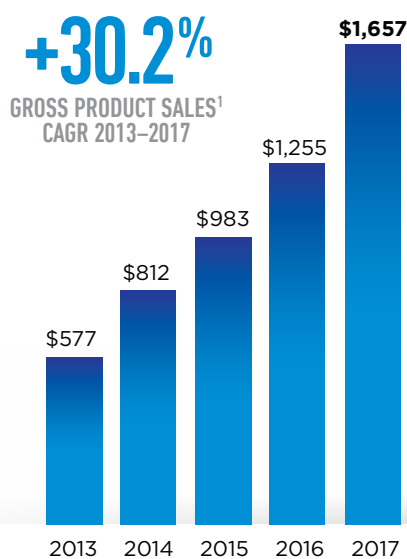
## LEVERAGE GLOBAL PLATFORM THROUGH STRATEGIC ACQUISITIONS

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



# FINANCIAL INFORMATION

(US\$ millions)



1. Non-IFRS financial measures. 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 within Spin Master's public filings 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

2017 was another year of significant growth for Spin Master, highlighted by strong revenue and EBITDA growth and the expansion of both our core and emerging brands. We executed well against our four growth strategies which include: innovating our core portfolio of products; creating successful global entertainment properties; increasing international sales; and making strategic, accretive acquisitions. These strategies continue to be drivers of our growth and are the primary focus of Spin Master's management team.

Grounded in our dedicated vision for growth, we maintained and extended our position as the fourth largest toy manufacturer in the US<sup>1</sup> while navigating through a challenging year for the toy industry. The announcement of the Toys "R" Us bankruptcy had a dampening effect on the industry; however we maintained a conservative financial profile and led with innovative products that topped retailer and consumer wish lists.

We report Gross Product Sales<sup>2</sup> in five business segments: (1) Remote Control & Interactive Characters, emphasizing innovative, adrenalin-charged experiences as well as leading-edge robotics; (2) Boys Action and High-Tech Construction, delivering high-quality products, including popular entertainment franchises, with engineering and robotics play; (3) Activities, Games & Puzzles and Fun Furniture, a wide range of products with global appeal, including innovative owned intellectual property as well as licensed brands; (4) Pre-School and Girls, products based on our internally created entertainment content as well as focused on specific girls' play patterns and trends; and (5) Outdoor, a diverse portfolio of innovative toys, floats and sporting goods for the backyard, pool and beach.

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

We reported Gross Product Sales<sup>2</sup> of \$1,657 million, up 32% from 2016. Over the past 10 years, our Gross Product Sales<sup>2</sup> have increased at a compound annual growth rate of 13%. In 2017, we also reported year-over-year increases in Revenue (up 34%), Gross Profit (up 34%), Adjusted EBITDA<sup>2</sup> (up 42%), Adjusted Net Income<sup>2</sup> (up 44%), and Adjusted EPS (up 43%). Free Cash Flow<sup>2</sup> increased from \$118.7 million in 2016 to \$193.4 million in 2017. All of these metrics were at record high levels in 2017.

We maintain a capital-light business model that emphasizes variable costs over fixed costs. We do not own any material manufacturing assets, nor do we own any warehousing facilities or animation studios. Our asset light structure enhances our free cash flow generation potential, allowing us to focus on the areas that add the most value and also gives us flexibility in securing the best specialized partners, thereby prioritizing the quality of the content and products we produce. From a manufacturing perspective, we have increasingly diversified our supply base to qualified low cost producers where it is most advantageous.

As our sales grew in 2017, we stayed focused on our efforts to expand gross margins through several initiatives, including: a product mix that favours our internally created intellectual property, which also allows us to generate alternate high-margin revenue streams; a goal of lowering sales allowances; a disciplined approach to operating leverage; and productivity programs for strategic sourcing, volume rebates and reengineering. Looking ahead, we still see opportunities for gross margin expansion.

1. The NPD Group/Retail Tracking Services 2. Non-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 (continued)

Our strong profitability and free cash flow allows us to reinvest cash in our four growth strategies as well as investing in our people and processes to exploit future opportunities. What follows is a review of the factors in 2017 that allowed us to advance each of our growth strategies and deliver strong financial results.

### INNOVATION

Success in the toy industry demands constant innovation. Our ability to innovate has, over the years, become one of our core competencies and a key competitive advantage. Our global internal R&D, engineering and design teams, complemented by our global 3<sup>rd</sup> party inventor network, consistently create meaningful innovation for our consumers. The sustainability of our innovation is achieved, in part, from our rolling 36-month brand innovation pipeline. We regularly review our 36-month product pipeline to identify opportunities for innovation, capitalize on growing trends, fill gaps in the marketplace and maintain diversification.

In 2017, *PAW Patrol* and *Hatchimals* continued to grow globally, *Luvabella* was a strong new entry in the doll category and the launch of *Soggy Doggy* brought new interactivity to board games. We also expanded the *Cool Maker* line, and for the first time in over 50 years, introduced two innovative new *Etch A Sketch* products following our acquisition of the line in 2016.

*Hatchimals* was a global phenomenon and category leader in 2017. Following its breakout in 2016, we seized the opportunity to grow *Hatchimals* from one product into a brand, supported by products at multiple price points and play patterns, as well as a full licensing and merchandising program. We extended the brand into lower price points and tapped into the high demand collectible trend with *Hatchimals Colleggtibles*. We introduced further innovation with *Hatchimals Surprise*, the hatching of twins that we launched on our second annual global *Hatchimals Day* on October 6, 2017.

In any highly competitive toy category, it is a challenge to be set apart from the competition, let alone breakout as an award-winning, “must-have” toy. *Luvabella* did just that in the doll super category in 2017. With advanced animatronic technology providing over 500 lifelike expressions and interactive responses, *Luvabella* is revolutionizing the traditional baby doll. *Luvabella* exemplifies our quest for opportunities in the market to introduce disruptive innovation to classic play patterns.

*Moonlite* was launched in late 2017 and is quickly being recognized for its transformative innovation by merging traditional storybooks with modern technology. Inspired by shadow play, this children’s story book projector attaches to a mobile phone and brings story time to life, projecting popular children’s books onto the ceiling or wall.

Our commitment to innovation is also evident in the dynamic approach we took to digital and experiential marketing campaigns for 2017. Recognizing that media behaviours are changing and kids are spending more time on social media, using apps and accessing content online, we raised brand awareness and engaged consumers in new and inspired ways. The following are some highlights of our innovative marketing campaigns:

- Our second annual *Hatchimals Day* set social media ablaze with *Hatchimals* being mentioned, on average, every 4 minutes across all social media in the US;
- *PAW Patrol* engaged fans through high-impact experiences, including: the *PAW Patrol Road Tour*, with hundreds of thousands lining up for the chance to board the *PAW Patroller* and interact with their favourite characters; the live stage show; and giant *PAW* characters featured in the Macy’s Thanksgiving Day parade; and



- We launched a national *Etch A Sketch* day in conjunction with the release of a creative App bringing the *Etch A Sketch* experience to mobile devices.

We will continue to innovate in our product development and marketing initiatives as this drives our product pipeline and builds our brands.

## DEVELOP EVERGREEN GLOBAL ENTERTAINMENT PROPERTIES

We are focusing on developing our own entertainment content as we see opportunities for increased consumer engagement, extended product life, better margins and the ability to participate in incremental royalty streams. We partner with world-class content creators, animation studios and talent to develop entertainment content that is complemented by and developed in conjunction with the physical toy lines. Children's programming, especially animation, travels across geographies, cultures and ethnicities very easily. Many children's properties are based on animals or fictitious characters, increasing their appeal to all viewers.

We had success in 2017 with our two pre-school properties: *PAW Patrol* and *Rusty Rivets*. In 2017, *PAW Patrol* was the number one property in the infant/toddler/pre-school toy super category in the US as reported by NPD. The property is now in its fifth season in the US & Canada, and in earlier seasons internationally. The combination of original and themed content, an integrated toy line, high television ratings and a strong distribution and licensing partner in Nickelodeon, is fuelling growth in global demand for *PAW Patrol*. We are also pleased with the success of *Rusty Rivets*, our newest pre-school entertainment property, currently in its second season on Nickelodeon. *Rusty Rivets* follows ten-year old inventor Rusty and his sidekick Ruby, as they improvise and build their way through obstacles and challenges. *Rusty Rivets* is consistently rating in the top three for pre-school boys' properties and the full toy line will be rolled out globally in 2018.

Telling stories and creating engaging and aspirational characters that resonate with kids around the world is the focus of our entertainment division for 2018 and beyond with a number of exciting properties under development in the boys' action and girls' category, including the launch of *Abby Hatcher* in late 2018 followed by the global relaunch of *Bakugan* in 2019.

For further information about our 2018 product lines and entertainment content, please see the Business Segment Report available at [www.spinmaster.com/investor-relations.php](http://www.spinmaster.com/investor-relations.php).

## INTERNATIONAL EXPANSION

In 2017, we actively pursued our objective of growing sales in international markets, resulting in Gross Product Sales<sup>2</sup> outside North America increasing to \$574 million in 2017 from \$407 million in 2016. We are making solid progress toward our medium-term goal of increasing our international Gross Product Sales<sup>2</sup> to 40% of our Gross Product Sales<sup>2</sup>. We remain under-represented compared to the industry as a whole and that represents an opportunity for growth.

International sales in 2017 grew to 34.7% of Gross Product Sales<sup>2</sup> compared to 32.5% in 2016, as a result of expanding our distribution networks, increasing our internal sales capabilities in existing offices, widening our product offering, and executing effective global marketing campaigns. Our global content as well as our innovative product offerings are opening new retail opportunities and strengthening our existing customer relationships.

## LETTER TO SHAREHOLDERS (continued)

2017 was the first full year of direct sales in Australia and Central Eastern Europe (Poland, Romania, Czech Republic, Hungary and Slovakia) following the conversion of these markets from 3<sup>rd</sup> party distribution to direct sales in late 2016. The return on investment in converting a market is strong and we performed well above our internal expectations in these geographies. We plan to selectively convert 3<sup>rd</sup> party distributor markets to direct sales where it makes sense strategically for us to do so.

We also began selling our products in China in July 2017. Our go-to-market strategy was two pronged: selling directly to consumers via e-commerce through Alibaba/T-Mall, and through a distributor for sales into the bricks and mortar channel. We were selective about the product lines we introduced into China, focusing on a few brands with global appeal led by *PAW Patrol*. Our results, while still immaterial, far exceeded our internal expectations and we believe we have built a solid long-term foundation for future growth in China.

## ACQUISITIONS

We acquired several businesses in 2017, further diversifying our product line and leveraging our global footprint.

- *Marbles* consists primarily of high-quality games and logic puzzles that promote brain development and will add to the recurring revenue that underlies our Activities, Games & Puzzles and Fun Furniture business segment. We are increasing *Marbles* sales across speciality and mass channels, including international where there was little penetration before.
- The outdoor flying disks and sports toys line from *Aerobie* was a natural fit in the Outdoor category we established through our 2016 acquisition of Swimways. We see opportunities to grow the business through increased global sales and distribution and to increase margins by leveraging our strategic productivity programs.
- *Perplexus*, a 3-D ball-in-a-maze puzzle, is a brand we have successfully distributed for several years and in December 2017 we acquired the global intellectual property and distribution rights. Securing permanent control of this core brand was important strategically. Beyond the immediate profit margin we gain by cutting our distributor costing, we are now able to leverage our productivity programs for strategic sourcing to further increase our gross margin and profitability. Owning *Perplexus* gives us the freedom to do what we do best: infuse the line with new innovation. We plan to expand the brand to include additional single play puzzles.

## GIVING BACK

At Spin Master, we are passionate about delivering inspiration, imagination and joy to children around the world. We created The Toy Movement in 2013 as a way to ensure that children are provided with the opportunity to play, learn and grow regardless of their circumstances. Since its inception, The Toy Movement has distributed more than 250,000 toys to children living in troubled parts of the world. In 2017, we completed missions to Mexico, South Africa and Nicaragua. In 2018, we are launching a mission in Iraq and we are committing to making a difference in the lives of 500,000 children around the world that have been hit hard by poverty and war.

## LOOKING AHEAD

In 2018, we will continue execute against our core growth strategies. We will focus on gaining competitive advantage and driving shareholder value creation by innovating throughout our business segments, building entertainment franchises, leveraging our global platform to expand sales internationally, and strategically assessing quality accretive acquisition opportunities as they may arise. As we grow, we will also continue to build an appropriate internal platform to support growth, with meaningful investments in technology and our people.

We are very excited about our recent acquisition of *Gund*. *Gund* is a heritage brand with 120-year-old roots in the plush business. *Gund* products are highly emotional, trusted purchases and many kids keep their *Gund* toys for decades. With the acquisition, we will now bring together *Gund's* deep expertise in plush and our ability to innovate and scale internationally; it will also allow us to build a stable platform for expansion into the infant toy and specialty gift categories.

As part of our corporate governance program, the chairmanship of Spin Master is transferring from Anton Rabie, who served as Chair from 2015 through the end of 2017, to Ronnen Harary.

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



Anton Rabie  
Chair 2017 and Co-CEO



Ronnen Harary  
Director and Co-CEO



John Cassaday  
Lead Director 2017



# 2017 Annual Report

Management's Discussion and Analysis of Financial Results	1
Independent Auditor's Report	40
Consolidated Statements of Financial Position	41
Consolidated Statements of Operations and Comprehensive Income	42
Consolidated Statements of Changes in Equity	43
Consolidated Statements of Cash Flows	44
Notes to the Consolidated Financial Statements	45



## **SPIN MASTER CORP.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS**

**For the three and twelve months ended December 31, 2017**

The following Management's Discussion and Analysis ("MD&A") for Spin Master Corp. ("Spin Master" or the "Company") is dated March 7, 2018 and provides information concerning the Company's financial condition and financial performance for the year ended December 31, 2017, and the three months ended December 31, 2017, ("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 for the year ended December 31, 2017 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](http://www.sedar.com).

Some of the information contained in this MD&A contains forward-looking statements that involve risks and uncertainties. See the "Forward-Looking Statements", "Financial Risk Management" and "Risks Relating to Spin Master's Business" sections of this MD&A 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 the "Risks Relating to Spin Master's Business" section and elsewhere in this MD&A.

#### **BASIS OF PRESENTATION**

The 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 in the "Non-IFRS Financial Measures" section of this MD&A. All financial information is presented in United States dollars ("\$", "dollars" and "USD") and has been rounded to the nearest thousand, except per share amounts and where 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 \$879,406 in 2015 to \$1,551,324 in 2017. Over the same period, Gross Product Sales (a non-IFRS measure) have increased from \$982,693 to \$1,657,028, a 29.9% compound annual growth rate. The Company's Gross Product Sales have grown at a 13.0% 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 \$800,456 in 2017 (representing 51.6% of revenue) and Adjusted EBITDA (a non-IFRS measure) of \$292,193, or 18.8% of revenue, in 2017.

Spin Master's principal strategies to drive 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 three geographic segments: North America, comprised of the U.S. and Canada; Europe, comprised of the UK, France, Italy, the Netherlands, Germany, Austria, Switzerland, Belgium, Luxembourg, Slovakia and Poland; and the Rest of World, comprised of Mexico and all other areas of the world serviced by Spin Master's third 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 financial statements of the Company.

(all amounts in USD 000's, except percentages)

	Year ended December 31		
	2017	2016	2015
<b>Earnings Results</b>			
<b>Gross Product Sales (1) By Segment</b>			
Activities, Games and Puzzles and Fun Furniture	365,378	337,768	231,433
Remote Control and Interactive Characters	593,355	282,777	233,294
Boys Action and High Tech Construction	112,102	154,454	192,304
Pre-School and Girls	493,069	460,484	325,662
Outdoor	93,124	19,075	—
<b>Gross Product Sales (1)</b>	<b>1,657,028</b>	<b>1,254,558</b>	<b>982,693</b>
Other revenue	85,792	47,940	19,217
<b>Total Gross Sales (1)</b>	<b>1,742,820</b>	<b>1,302,498</b>	<b>1,001,910</b>
Sales allowances (1)	191,496	148,044	122,504
<b>Revenue</b>	<b>1,551,324</b>	<b>1,154,454</b>	<b>879,406</b>
Cost of goods sold	750,868	557,712	420,486
<b>Gross profit</b>	<b>800,456</b>	<b>596,742</b>	<b>458,920</b>
<i>Gross Margin</i>	51.6%	51.7%	52.2%
Selling, marketing, distribution and product development	312,186	243,689	183,791
Administrative expenses	262,066	201,008	195,909
Other expenses (income)	6,700	35	(13,429)
Foreign exchange (gain) loss	(11,370)	5,530	6,477
Finance costs	10,445	8,601	6,539
<b>Income before income tax expense</b>	<b>220,429</b>	<b>137,879</b>	<b>79,633</b>
Income tax expense	59,363	38,364	32,559
<b>Net income</b>	<b>161,066</b>	<b>99,515</b>	<b>47,074</b>
<b>Net income attributable to:</b>			
Owners of the Company	161,066	99,515	43,213
Non-Controlling interests	—	—	3,861
<b>Net income</b>	<b>161,066</b>	<b>99,515</b>	<b>47,074</b>

Note:

1) See "Non-IFRS Financial Measures"

<b>Net Earnings from operations</b> <b>(all amounts in USD 000's, except for EPS and percentages)</b>	<b>Year ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net income attributable to Owners of the Company	161,066	99,515	43,213
<b>Earnings per share attributable to common shareholders (3)</b>			
Basic and diluted EPS	\$ 1.58	\$ 0.99	\$ 0.48
<b>Other Financial Data</b>			
EBITDA (1)	275,782	176,970	109,049
Adjusted EBITDA (1)	292,192	205,511	160,449
<i>Adjusted EBITDA Margin</i>	<i>18.8%</i>	<i>17.8%</i>	<i>18.2%</i>
Adjusted Net Income (1)	172,997	120,115	98,609
Adjusted Net Income attributable to Owners of the Company (1)	172,997	120,115	94,748
Adjusted Earnings Per Share (1) (3)			
Adjusted basic and diluted EPS (1)	\$ 1.70	\$ 1.19	\$ 1.04
<b>Balance Sheet and Cash Flow Data</b>			
Cash	117,262	99,416	45,713
Total assets	938,385	775,596	388,283
Total non - current liabilities	13,810	18,584	56,749
Loans and borrowings	531	158,145	50,310
Loans from related parties	—	—	40
Total debt	531	158,145	50,350
Net Debt (2)	(116,731)	58,729	4,637
Total shareholders' equity	500,082	325,679	156,319
Cash provided by operating activities	267,405	73,038	55,639
Cash used in investing activities	(81,598)	(172,273)	(93,573)
Cash (used in) provided by financing activities	(161,485)	155,467	(11,541)

**Notes:**

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, 2017, compared to the same period in 2016:**  
(all amounts in USD 000's, except per share)

- Revenue increased by 30.3% from \$338,377 to \$440,863 in 2017. In Constant Currency terms (a non-IFRS measure), revenue increased by 27.6%.
- Gross profit as a percentage of revenue was 51.9%, an increase of 1.1% from 50.8%.
- Net income was \$20,040 or \$0.21 per share compared to a net income of \$2,727 or \$0.03 per share.
- Adjusted EBITDA (a non-IFRS measure) was \$47,343 or 10.7% of revenue, compared to \$22,888 or 6.8% of revenue.
- On November 30, 2017, the Company acquired certain assets related to the *Perplexus* brand, from Michael McGinnis, Klitsner Industrial Design Group and Busy Life LLC., for approximately \$9,000. Spin Master has distributed *Perplexus* since 2013 and with this recent transaction, Spin Master will now own the global intellectual property rights to the *Perplexus* brand. *Perplexus* is included in the Activities, Games and Puzzles and Fun Furniture business segment.

**Highlights for the twelve month period ended December 31, 2017, compared to the same period in 2016:**  
(all amounts in USD 000's, except per share)

- Revenue increased by 34.4% to \$1,551,324 from \$1,154,454. In Constant Currency terms (a non-IFRS measure), revenue increased by 33.7%.
- Gross profit as a percentage of revenue was 51.6%, a decrease of 0.1% from 51.7%.
- Net income was \$161,066 or \$1.58 per share compared to \$99,515 or \$0.99 per share.
- Adjusted EBITDA was \$292,192 or 18.8% of revenue, compared to \$205,511 or 17.8% of revenue.
- On April 28, 2017, Spin Master acquired certain assets of *Marbles*, a manufacturer of brain-building and high-quality games for approximately \$4,700. The purchase consideration was funded from internal cash resources. The *Marbles* portfolio is included in the Activities, Games and Puzzles and Fun Furniture business segment.
- On May 24, 2017, the three founders of the Company completed a public offering of 3,681,000 subordinate voting shares of the Company at a price of Canadian Dollars ("CDN") CDN\$40.75 (USD \$30.21) per share, for aggregate gross proceeds to the selling shareholders of CDN\$150,000 (USD \$111,193). To satisfy the sale, the selling shareholders converted in aggregate 3,861,000 multiple voting shares into subordinate voting shares on a one-for-one basis. The Company did not receive any proceeds from the sale of subordinate voting shares associated with this offering.
- On July 28, 2017, the Company acquired certain assets of Aerobie Inc., a leading manufacturer of outdoor flying disks and sports toys, for \$10,700. The purchase consideration was financed from internal cash resources. The *Aerobie* portfolio is managed by Swimways as part of the *Coop* family of outdoor leisure products and is reported in the Outdoor business segment. Aerobie was founded in Palo Alto, CA in 1984 and focuses on creating high performance flying toys, resulting in the groundbreaking flying ring format. The *Aerobie* portfolio of flying discs includes the *Pro Ring*, *Superdisc* and *Sprint Ring* and the *Orbiter Boomerang*.
- On September 18, 2017, Toys "R" Us Inc. ("TRU") announced that certain of its U.S. subsidiaries have voluntarily filed for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Eastern District of Virginia in Richmond, VA. In addition, TRU's Canadian subsidiary filed to seek protection in parallel proceedings under the CCAA in the Ontario Superior Court of Justice. TRU's operations outside of the U.S. and Canada, including its approximately 255 licensed stores and joint venture partnership in Asia, which are separate entities, were not part of the Chapter 11 filing and CCAA proceedings. TRU has subsequently received a commitment for debtor-in-possession ("DIP") financing. TRU's Chapter 11 and CCAA filings have resulted in a non-recurring bad debt expense of \$5,400 for the year ended December 31, 2017. This amount represents the co-insurance portion of the claim under various credit insurance policies in place for the pre-petition receivables.

## Subsequent event

On February 28, 2018, the Company signed an agreement to acquire certain assets relating to the Gund line of business from Enesco LLC for \$79,100. Gund is a manufacturer and distributor of plush toys and is best known for its' line of teddy bears. Established in 1898, Gund has a 120-year history as a market leader and toy industry pioneer widely known for its high quality and innovative design. Headquartered in Edison, New Jersey, Gund distributes product throughout the United States, Canada, Europe, Japan, Australia and South America. The acquisition will allow Spin Master to build a stable platform for expansion into the infant toy and specialty gift categories and further grow the business internationally. Gund will be included in the Activities, Games and Puzzles and Fun Furniture business segment. The purchase consideration will be funded from internally generated cash resources and the Company's existing Credit Facility. The acquisition is expected to close on April 1, 2018.

## FINANCIAL PERFORMANCE

For the three and twelve months period ended December 31, 2017 compared to the three and twelve months period ended December 31, 2016:

### Consolidated Results

The following tables provide a summary of Spin Master's consolidated results for the three and twelve months period ended December 31, 2017 and 2016.

(All amounts in USD 000's)	Three Months Ended December 31			
	2017	2016	\$ Change	% Change
Revenue	440,863	338,377	102,486	30.3 %
Cost of sales	212,000	166,373	45,627	27.4 %
<b>Gross profit</b>	<b>228,863</b>	<b>172,004</b>	<b>56,859</b>	<b>33.1 %</b>
Selling, marketing, distribution and product development	132,495	104,551	27,944	26.7 %
Administrative expenses	67,364	55,417	11,947	21.6 %
Other income	(1,329)	(223)	(1,106)	496.0 %
Foreign exchange loss	2,866	6,634	(3,768)	(56.8)%
Finance costs	2,584	2,414	170	7.0 %
<b>Income before income tax expense</b>	<b>24,883</b>	<b>3,211</b>	<b>21,672</b>	<b>674.9 %</b>
Income tax expense	4,843	484	4,359	900.6 %
<b>Net income</b>	<b>20,040</b>	<b>2,727</b>	<b>17,313</b>	<b>634.9 %</b>

(All amounts in USD 000's)	Year ended December 31			
	2017	2016	\$ Change	% Change
Revenue	1,551,324	1,154,454	396,870	34.4 %
Cost of sales	750,868	557,712	193,156	34.6 %
<b>Gross profit</b>	<b>800,456</b>	<b>596,742</b>	<b>203,714</b>	<b>34.1 %</b>
Selling, marketing, distribution and product development	312,186	243,689	68,497	28.1 %
Administrative expenses	262,066	201,008	61,058	30.4 %
Other expenses	6,700	35	6,665	19,042.9 %
Foreign exchange (gain) loss	(11,370)	5,530	(16,900)	(305.6)%
Finance costs	10,445	8,601	1,844	21.4 %
<b>Income before income tax expense</b>	<b>220,429</b>	<b>137,879</b>	<b>82,550</b>	<b>59.9 %</b>
Income tax expense	59,363	38,364	20,999	54.7 %
<b>Net income</b>	<b>161,066</b>	<b>99,515</b>	<b>61,551</b>	<b>61.9 %</b>



## Revenue

### For the Three Months ended December 31, 2017

The following table provides a summary of Spin Master's revenue and segmented breakdown for the three months ended December 31, 2017 and 2016:

(All amounts in USD 000's)	Three Months Ended December 31			
	2017	2016	\$ Change	% Change
Activities, Games & Puzzles and Fun Furniture	131,443	109,512	21,931	20.0 %
Remote Control and Interactive Characters	198,706	92,566	106,140	114.7 %
Boys Action and High-Tech Construction	36,714	34,765	1,949	5.6 %
Pre-School and Girls	102,414	125,133	(22,719)	(18.2)%
Outdoor	14,588	14,202	386	2.7 %
<b>Gross Product Sales (1)</b>	<b>483,865</b>	<b>376,178</b>	<b>107,687</b>	<b>28.6 %</b>
Other revenue	30,034	12,281	17,753	144.6 %
<b>Total Gross Sales (1)</b>	<b>513,899</b>	<b>388,459</b>	<b>125,440</b>	<b>32.3 %</b>
Sales allowances (1)	73,036	50,082	22,954	45.8 %
<b>Revenue</b>	<b>440,863</b>	<b>338,377</b>	<b>102,486</b>	<b>30.3 %</b>

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

Gross Product Sales increased by \$107,687, or 28.6%, to \$483,865 with a favourable impact from changes in foreign exchange rates of \$10,294.

Gross Product Sales in the Activities, Games & Puzzles and Fun Furniture increased by \$21,931, or 20.0% to \$131,443, driven by sales of *Cool* branded products, *Doctor Dreadful*, *Etch A Sketch*, *Kinetic Rock* and Spin Master's games portfolio, which includes *Cardinal* and *Marbles*, offset in part by decreases in *Marshmallow Furniture*.

Gross Product Sales in the Remote Control and Interactive Characters segment increased by \$106,140 or 114.7% to \$198,706, driven by sales of *Hatchimals* and *Luvabella* offset by decreases in *Zoomer* and *Air Hogs*.

Gross Product Sales in the Boys Action and High-Tech Construction segment increased by \$1,949 or 5.6% to \$36,714 due to higher sales of *Star Wars* licensed merchandise such as BB8 and *Tech Deck*, partially offset by decreased sales of *Secret Life of Pets* products. Sales of *Meccano* were consistent with the prior year.

Gross Product Sales in the Pre-School and Girls segment decreased by \$22,719 or 18.2% to \$102,414, driven by decreased sales of, *Brightlings*, *Power Puff Girls* and *Chubby Puppies*.

Gross Product Sales in the Outdoor segment comprised the sales of Swimways products under the *Swimways*, *Kelysius* and *Coop* brands, which the Company acquired on August 2, 2016. Gross Product Sales in the Outdoor segment increased by \$386 or 2.7% to \$14,588.

Other Revenue increased by \$17,753 or 144.6% to \$30,034, driven by increased royalty income from products marketed by third parties using Spin Master's owned intellectual property, increased television distribution income and app revenue from *Toca Boca* and *Sago Mini*.

Sales allowances increased by \$22,954 or 45.8% to \$73,036, primarily driven by increased Gross Product Sales as well as product and market mix. As a percentage of Gross Product Sales, Sales allowances increased 1.8% to 15.1% from 13.3% in 2016.

The following table provides a summary of Spin Master's Gross Product Sales by geographic segment for the three month periods ended December 31, 2017 and 2016:

(All amounts in USD 000's)	Three Months Ended December 31			
	2017	2016	\$ Change	% Change
North America	286,603	245,363	41,240	16.8%
Europe	125,898	93,949	31,949	34.0%
Rest of World	71,364	36,866	34,498	93.6%
<b>Gross Product Sales (1)</b>	<b>483,865</b>	<b>376,178</b>	<b>107,687</b>	<b>28.6%</b>

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

Gross Product Sales in North America increased by \$41,240 or 16.8% to \$286,603 with a favourable impact from changes in foreign exchange rates of \$887. Growth was driven by sales of *Hatchimals*, *Cardinal Games* and *Star Wars* licensed merchandise such as BB8, more than offsetting declines in *Air Hogs* and *Zoomer*.

Gross Product Sales in Europe increased by \$31,949 or 34.0% to \$125,898, with a favourable impact from changes in foreign exchange rates of \$8,149. Growth was primarily driven by sales of *Hatchimals* and increased sales of *PAW Patrol* in Germany, Austria and Switzerland.

Gross Product Sales in the Rest of World region increased by \$34,498 or 93.6% to \$71,364, with a favourable impact from changes in foreign exchange rates of \$1,258. Growth was primarily driven by increases in *Hatchimals* partially offset by decreases in sales to third party distributors.

#### For the year ended December 31, 2017

The following table provides a summary of Spin Master's revenue and segmented breakdown for the twelve months ended December 31, 2017 and 2016:

(All amounts in USD 000's)	Year ended December 31			
	2017	2016	\$ Change	% Change
Activities, Games and Puzzles and Fun Furniture	365,378	337,768	27,610	8.2 %
Remote Control and Interactive Characters	593,355	282,777	310,578	109.8 %
Boys Action and High-Tech Construction	112,102	154,454	(42,352)	(27.4)%
Pre-School and Girls	493,069	460,484	32,585	7.1 %
Outdoor	93,124	19,075	74,049	388.2 %
<b>Gross Product Sales (1)</b>	<b>1,657,028</b>	<b>1,254,558</b>	<b>402,470</b>	<b>32.1 %</b>
Other revenue	85,792	47,940	37,852	79.0 %
<b>Total Gross Sales (1)</b>	<b>1,742,820</b>	<b>1,302,498</b>	<b>440,322</b>	<b>33.8 %</b>
Sales allowances (1)	191,496	148,044	43,452	29.4 %
<b>Revenue</b>	<b>1,551,324</b>	<b>1,154,454</b>	<b>396,870</b>	<b>34.4 %</b>

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

Gross Product Sales increased by \$402,470, or 32.1%, to \$1,657,028 with a favourable impact from changes in foreign exchange rates of \$9,500.

Gross Product Sales in the Activities, Games and Puzzles and Fun Furniture segment increased by \$27,610 or 8.2% to \$365,378, primarily driven by increases in *Kinetic Rock*, *Cool* branded products, *Etch A Sketch* and Spin Master's games portfolio, which includes *Cardinal* and *Marbles*, offset by decreases in *Bunchems*, *Kinetic Sand*, *Kinetic Foam* and *Marshmallow Furniture*.

Gross Product Sales in the Remote Control and Interactive Characters segment increased by \$310,578 or 109.8% to \$593,355, primarily due to higher sales of *Hatchimals* and *Luvabella*, which offset declines in *Air Hogs* and *Zoomer*.

Gross Product Sales in the Boys Action and High-Tech Construction segment decreased by \$42,352 or 27.4% to \$112,102 primarily as a result of declines in *Secret Life of Pets*, *Spy Gear* and *Angry Birds* licensed toys, *Minecraft* and *Meccano*, partially offset by increased sales of *Pirates of the Caribbean* and *Star Wars* licensed merchandise such as BB8, as well as *Tech Deck*.

Gross Product Sales in the Pre-School and Girls segment increased by \$32,585 or 7.1% to \$493,069, driven by increased sales of *PAW Patrol* and *Rusty Rivets*, and offset by declines in *Brightlings*, *Chubby Puppies* and *Power Puff Girls* licensed products.

Gross Product Sales in the Outdoor segment were comprised of the sales of Swimways products under the *Swimways*, *Kelysius* and *Coop* brands, which the Company acquired on August 2, 2016. As the Outdoor segment was formed on August 2, 2016 following the acquisition of Swimways, there was a full year of contribution to Gross Product Sales from the Outdoor segment in 2017, compared to five months in 2016.

Other revenue increased by \$37,852 or 79.0%, to \$85,792, driven by increased television distribution income, increased 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 \$43,452 or 29.4% to \$191,496, driven primarily by higher Gross Product Sales. Sales allowances as a percentage of Gross Product Sales decreased slightly by 0.2% to 11.6% from 11.8% in 2016.

The following table provides a summary of Spin Master's Gross Product Sales by geographic segment for the twelve months ended December 31, 2017 and 2016:

(All amounts in USD 000's)	Year ended December 31			
	2017	2016	\$ Change	% Change
North America	1,082,709	847,278	235,431	27.8%
Europe	368,009	271,130	96,879	35.7%
Rest of World	206,310	136,150	70,160	51.5%
<b>Total Gross Product Sales (1)</b>	<b>1,657,028</b>	<b>1,254,558</b>	<b>402,470</b>	<b>32.1%</b>

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

Gross Product Sales in North America increased by \$235,431 or 27.8% to \$1,082,709 with a favourable impact from changes in foreign exchange rates of \$1,183. Growth was driven primarily by increases in product sales of *Hatchimals*, *PAW Patrol*, *Luvabella* and *Star Wars* licensed merchandise such as BB8, which more than offset declines in *Secret Life of Pets*, *Air Hogs*, *Zoomer* and *Chubby Puppies*.

Gross Product Sales in Europe increased by \$96,879 or 35.7% to \$368,009 with a favourable impact from changes in foreign exchange rates of \$6,451. Growth was primarily driven by higher sales of *PAW Patrol*, *Hatchimals* and increased sales of *Luvabella* in the UK as well as increased sales of *Bunchems* in France and the Benelux region.

Gross Product Sales in the Rest of World region increased by \$70,160 or 51.5% to \$206,310 with a favourable impact from changes in foreign exchange rates of \$1,866. The increases were primarily driven by increases in *Hatchimals*, which offset declines in *Zoomer*, *Kinetic Sand* and *Bunchems* as well as licensed products such as *Secret Life of Pets*, *Angry Birds* and *Teenage Mutant Ninja Turtles*.

## Gross Profit

(All amounts in USD 000's)	Three Months Ended December 31			
	2017	2016	\$ Change	% Change
<b>Gross profit</b>	<b>228,863</b>	<b>172,004</b>	<b>56,859</b>	<b>33.1%</b>
Gross profit as % of revenue	51.9%	50.8%		—

For the three months ended December 31, 2017, gross profit increased by \$56,859 or 33.1% to \$228,863. As a percentage of revenue, gross profit increased to 51.9% from 50.8%.

(All amounts in USD 000's)	Year ended December 31			
	2017	2016	\$ Change	% Change
<b>Gross profit</b>	<b>800,456</b>	<b>596,742</b>	<b>203,714</b>	<b>34.1%</b>
Gross profit as % of revenue	51.6%	51.7%		

For the twelve months ended December 31, 2017, gross profit increased by \$203,714 or 34.1% to \$800,456. As a percentage of revenue, gross margin decreased slightly from 51.7% to 51.6%, primarily due to product mix related to acquisitions and foreign exchange, offset by increases in gross margin from owned intellectual property products and increased licensing and merchandising revenues.

## Selling, Marketing, Distribution and Product Development Expenses

(All amounts in USD 000's)	Three Months Ended December 31			
	2017	2016	\$ Change	% Change
<b>Marketing expenses</b>	<b>70,205</b>	<b>61,879</b>	<b>8,326</b>	<b>13.5%</b>
Marketing expenses as a % of revenue	15.9%	18.3%		
<b>Product development expenses</b>	<b>7,539</b>	<b>7,147</b>	<b>392</b>	<b>5.5%</b>
Product development expenses as a % of revenue	1.7%	2.1%		
<b>Selling expenses</b>	<b>36,765</b>	<b>22,807</b>	<b>13,958</b>	<b>61.2%</b>
Selling expenses as a % of revenue	8.3%	6.7%		
<b>Distribution expenses</b>	<b>17,986</b>	<b>12,718</b>	<b>5,268</b>	<b>41.4%</b>
Distribution expenses as a % of revenue	4.1%	3.8%		
<b>Total</b>	<b>132,495</b>	<b>104,551</b>	<b>27,944</b>	<b>26.7%</b>

Marketing expenses increased by \$8,326 or 13.5%, to \$70,205, primarily as a result of increased media spending to drive higher sales as well as increased spending on promotions, research and merchandising. Marketing expenses as a percentage of revenue decreased to 15.9% from 18.3% in 2016.

Product development expenses increased by \$392 or 5.5%, to \$7,539, related to the timing of projects primarily in the Remote Control and Interactive Characters and Boys Action and High-Tech Construction business segments.

Selling expenses increased by \$13,958, or 61.2%, to \$36,765. Selling expenses as a percentage of revenue increased to 8.3% from 6.7% in 2016.

Distribution expenses increased by \$5,268 or 41.4% to \$17,986, driven by increased domestic sales volume primarily in Europe as well as on-going efforts to rationalize the Company's supply chain as the Company continues to position itself for growth.

(All amounts in USD 000's)	Year ended December 31			
	2017	2016	\$ Change	% Change
<b>Marketing expenses</b>	<b>128,713</b>	<b>112,339</b>	16,374	14.6%
Marketing expenses as a % of revenue	8.3%	9.7%		
<b>Product development expenses</b>	<b>23,365</b>	<b>22,017</b>	1,348	6.1%
Product development expenses as a % of revenue	1.5%	1.9%		
<b>Selling expenses</b>	<b>106,471</b>	<b>77,102</b>	29,369	38.1%
Selling expenses as a % of revenue	6.9%	6.7%		
<b>Distribution expenses</b>	<b>53,637</b>	<b>32,231</b>	21,406	66.4%
Distribution expenses as a % of revenue	3.5%	2.8%		
<b>Total</b>	<b>312,186</b>	<b>243,689</b>	68,497	28.1%

Marketing expenses increased by \$16,374 or 14.6%, to \$128,713, primarily as a result of increased media spending to drive higher sales as well as increased spending on promotion, research and strategic marketing spend. As a percentage of revenue, marketing expenses decreased to 8.3% from 9.7%.

Product development expenses increased by \$1,348, or 6.1%, to \$23,365, primarily due to investments in the Remote Control and Interactive Characters and Boys Action and High-Tech Construction business segments.

Selling expenses increased by \$29,369 or 38.1%, to \$106,471. As a percentage of revenue, selling expenses marginally increased to 6.9% from 6.7%.

Distribution expenses increased by \$21,406, or 66.4%, to \$53,637, driven by higher sales volumes, increased distribution expenses to support European growth and costs associated with integrating the logistics and supply chains of acquired companies.

#### *Administrative Expenses*

For the three months ended December 31, 2017 compared to the same period in 2016, administrative expenses increased by \$11,947, or 21.6%, to \$67,364. Administrative expenses as a percentage of revenue decreased to 15.3% from 16.4% in the same period in 2016. Share-based compensation expenses associated with equity participation agreements remained consistent with the prior year. Excluding the impact of share-based compensation, administrative expenses as a percentage of revenue decreased to 14.8% from 15.7% in 2016.

For the twelve months ended December 31, 2017 compared to the same period in 2016, administrative expenses increased by \$61,058, or 30.4%, to \$262,066, primarily due to increased expenses associated with acquired companies and the non-recurring bad debt expense related to TRU, partially offset by lower share-based compensation expense associated with the equity participation agreement at the time of the Company's initial public offering (the "IPO") and grants of restricted share units. Administrative expenses as a percentage of revenue decreased to 16.9% from 17.4% in the same period in 2016. Excluding the impact of share-based compensation, administrative expenses as a percentage of revenue increased to 16.2% from 15.6% in 2016. Excluding the impact of share-based compensation and the non-recurring bad debt expense related to TRU, administrative expenses as a percentage of revenue was 15.9% compared to 15.6%.

#### *Finance Costs*

For the three months ended December 31, 2017, finance costs increased by \$170 to \$2,584 compared to the same period in 2016. For the twelve months ended December 31, 2017, finance costs increased by \$1,844 to \$10,445 compared to the same period in 2016. The increase was primarily driven by an increase in sales volume related bank charges and higher interest costs associated with the borrowings on the Company's Credit Facility.

#### **Net income**

Net income for the three months ended December 31, 2017 increased by \$17,313 to \$20,040 from \$2,727 for the same period in 2016, primarily as a result of higher revenues and a positive impact of foreign exchange offset by higher administrative expenses, increased marketing and selling expenses and an increase in distribution expense.



Excluding share-based compensation expense, foreign exchange losses and other non-recurring items, Adjusted Net Income (a non-IFRS measure, see “Non-IFRS financial measures”) for the three months ended December 31, 2017 increased by \$16,165 to \$25,512 from \$9,347 for the same period in 2016.

Net income for the year ended December 31, 2017 increased by \$61,551 to \$161,066 from \$99,515 for the same period in 2016. Excluding share-based compensation expense, restructuring and foreign exchange gains, Adjusted Net Income for the year ended December 31, 2017 increased by \$52,882 to \$172,997 from \$120,115 for the same period in 2016.

## OUTLOOK

For 2018, Spin Master expects its organic Gross Product Sales growth rate to be in the mid to high single digits range compared to 2017. From a seasonality perspective, Spin Master expects Gross Product Sales in the first half of 2018 to be in the range of 32-35% of full year Gross Product Sales compared to approximately 30% in the past. Adjusted EBITDA Margin for 2018 is expected to be consistent with 2017.

## SELECTED QUARTERLY FINANCIAL INFORMATION

Seasonality factors cause Spin Master’s operating results to fluctuate significantly from quarter to quarter. A majority of the Company’s annual sales occur during the third and fourth quarters of the Company’s fiscal year with a significant portion of its net income earned during the same period.

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

(All amounts in USD 000's except EPS)	Three Months Ended							
	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016
Revenue	440,863	606,098	276,652	227,711	338,377	475,015	179,360	161,702
Adjusted EBITDA (1)	47,343	170,308	43,724	30,818	22,888	133,261	25,389	23,973
Adjusted EBITDA margin (1)	10.7%	28.1%	15.8%	13.5%	6.8%	28.1%	14.2%	14.8%
Net income	20,040	108,825	22,114	10,087	2,727	83,253	3,598	9,937
Basic and diluted EPS	\$0.21	\$1.07	\$0.22	\$0.10	\$0.03	\$0.82	\$0.04	\$0.10
Adjusted Net Income (1)	25,512	111,711	22,217	13,557	9,347	87,482	11,698	11,588
Basic and diluted adjusted EPS (1)	\$0.25	\$1.10	\$0.22	\$0.13	\$0.09	\$0.86	\$0.12	\$0.12
Free cash flow (1)	18,439	145,169	24,835	4,998	(3,881)	117,238	(11,026)	16,359

1) See “Non-IFRS Financial Measures”

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

(All amounts in USD 000's)	Three Months Ended							
	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016
<b>Net income</b>	<b>20,040</b>	<b>108,825</b>	<b>22,114</b>	<b>10,087</b>	<b>2,727</b>	<b>83,253</b>	<b>3,598</b>	<b>9,937</b>
Finance costs	2,584	2,558	2,439	2,864	2,414	2,575	1,852	1,760
Depreciation and amortization	12,422	12,670	10,602	9,214	8,173	9,420	7,526	5,371
Income tax	4,843	42,233	8,431	3,856	484	32,319	1,056	4,505
<b>EBITDA (1)</b>	<b>39,889</b>	<b>166,286</b>	<b>43,586</b>	<b>26,021</b>	<b>13,798</b>	<b>127,567</b>	<b>14,032</b>	<b>21,573</b>
<b>Normalization adjustments</b>								
Restructuring (2)	327	167	434	752	65	828	275	656
Recovery of contingent liability (3)	—	—	—	—	(222)	—	—	—
Foreign exchange loss (gain) (4)	2,866	(5,831)	(6,706)	(1,699)	6,634	(129)	4,065	(5,040)
Share based compensation (5)	2,076	2,425	2,857	2,724	2,146	4,996	7,017	6,785
Impairment of intangible asset (6)	2,531	3,800	2,316	385	—	—	—	—
Fair market value adjustments (7)	450	—	—	2,355	—	—	—	—
Executive compensation - acquisition (8)	(840)	279	281	280	467	—	—	—
Non-recurring transaction costs (9)	44	—	956	—	—	—	—	—
Non-recurring bad debt expense (10)	—	5,382	—	—	—	—	—	—
Non-recurring royalty recovery (11)	—	(2,200)	—	—	—	—	—	—
<b>Adjusted EBITDA (1)</b>	<b>47,343</b>	<b>170,308</b>	<b>43,724</b>	<b>30,818</b>	<b>22,888</b>	<b>133,262</b>	<b>25,389</b>	<b>23,973</b>
Finance costs	2,584	2,558	2,439	2,864	2,414	2,575	1,852	1,760
Depreciation and amortization	12,422	12,670	10,602	9,214	8,173	9,420	7,526	5,371
Income tax	4,843	42,233	8,431	3,856	484	32,319	1,056	4,505
Tax effect of normalization adjustments (12)	1,982	1,136	35	1,327	2,470	1,465	3,257	750
<b>Adjusted Net Income (1)</b>	<b>25,512</b>	<b>111,711</b>	<b>22,217</b>	<b>13,557</b>	<b>9,347</b>	<b>87,483</b>	<b>11,698</b>	<b>11,589</b>

**Footnotes:**

- 1) See "Non-IFRS Financial Measures".
- 2) Restructuring primarily relates to organizational changes.
- 3) A reversal of a portion of a contingent consideration liability 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 payout.
- 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 in which they occur.
- 5) Share 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.
- 6) Non-cash Impairment charges of intangible assets relating to Licenses, Content Development, Brands and Trademarks.
- 7) Amortization of Fair Market Value adjustments to inventory relating to the acquisition of Marbles and Aerobie in the second and third quarters of 2017 respectively, Swimways in the third quarter of 2016 and Cardinal in the fourth quarter of 2015.
- 8) Remuneration expense associated with contingent consideration for the Swimways acquisition.
- 9) Non-recurring transaction costs relating to Marbles acquisition in the second quarter of 2017.
- 10) Non-recurring bad debt expense related to the bankruptcy declaration of TRU in Canada and the United States during the third quarter of 2017.
- 11) Non-recurring royalty income recovery related to prior year.
- 12) Tax effect of normalization adjustments (Footnotes 2-11). Normalization adjustments are 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, 2017, the Company had \$510 million available under its Credit Facility, which matures in 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 fund 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 \$531 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.

On April 28, 2017, the Company filed a final short-form base shelf prospectus, allowing the Company to offer and issue the following securities: (i) subordinate voting shares; (ii) preferred shares; (iii) senior or subordinated unsecured debt securities; (iv) subscription receipts; (v) warrants; and (vi) securities comprised of more than one of the subordinate voting shares, preferred shares, debt securities, subscription receipts and / or warrants offered together as a unit. These securities may be offered separately or together, in separate series, in amounts, at prices and on terms to be set forth in one or more shelf prospectus supplements. The aggregate initial offering price of securities that could be sold by the Company (or certain of the Company's shareholders, including the principal shareholders) pursuant to this base shelf prospectus during the 25-month period that the base shelf prospectus, including any amendments thereto, remains valid was limited to CDN\$600 million.

### **TRU Chapter 11 and CCAA filing**

On September 19, 2017, TRU announced that certain of its U.S. subsidiaries have voluntarily filed for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Eastern District of Virginia in Richmond, VA. In addition, TRU's Canadian subsidiary filed to seek protection in parallel proceedings under the CCAA in the Ontario Superior Court of Justice. TRU intends to use these court-supervised proceedings to restructure its outstanding debt and establish a sustainable capital structure.

TRU's operations outside of the U.S. and Canada, including its approximately 255 licensed stores and joint venture partnership in Asia, which are separate entities, are not part of the Chapter 11 filing and CCAA proceedings.

TRU has received a commitment for over \$3.0 billion in DIP financing from various lenders, including a JP Morgan-led bank syndicate and certain of TRU's existing lenders, which is expected to immediately improve TRU's financial health and support its ongoing operations during the court-supervised process.

In conjunction with the Chapter 11 process in the U.S., TRU has filed a number of customary motions with the bankruptcy court seeking authorization to support its operations during the restructuring process and ensure a smooth transition into Chapter 11 without disruption, including authority to continue payment of employee wages and benefits, honour customer programs and pay vendors and suppliers in the ordinary course for all goods provided on or after the filing date.

TRU's Chapter 11 and CCAA filings have resulted in a one-time bad debt expense of \$5.4 million for the year ended December 31, 2017.

## 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 television show production.

## CASH FLOW

The following table provides a summary of Spin Master's consolidated cash flows for three and twelve months ended December 31, 2017 and 2016.

<b>(All amounts in USD 000's)</b>	<b>Three months ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>\$ Change</b>
Net cash flows provided by operating activities	109,525	62,310	47,215
Net cash flows used in investing activities	(9,618)	(4,554)	(5,064)
Net cash flows used in financing activities	(30,131)	(5,260)	(24,871)
<b>Net increase in cash</b>	<b>69,776</b>	<b>52,496</b>	<b>17,280</b>
Effect of foreign currency exchange rate changes on cash	(2,425)	(2,607)	182
Cash at beginning of period	49,911	49,527	384
<b>Cash at end of year</b>	<b>117,262</b>	<b>99,416</b>	<b>17,846</b>

<b>(All amounts in USD 000's)</b>	<b>Year ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>\$ Change</b>
Net cash flows provided by operating activities	267,405	73,038	194,367
Net cash flows used in investing activities	(81,598)	(172,273)	90,675
Net cash flows (used in) provided by financing activities	(161,485)	155,467	(316,952)
<b>Net increase in cash</b>	<b>24,322</b>	<b>56,232</b>	<b>(31,910)</b>
Effect of foreign currency exchange rate changes on cash	(6,476)	(2,529)	(3,947)
Cash at beginning of year	99,416	45,713	53,703
<b>Cash at end of year</b>	<b>117,262</b>	<b>99,416</b>	<b>17,846</b>

## Cash from Operating Activities

Cash flows from operating activities were \$109,525 for the three months ended December 31, 2017 compared to cash flows from operating activities of \$62,310 for the same period in 2016. For the twelve months ended December 31, 2017, cash flows from operating activities were \$267,405 compared to \$73,038 for the same period in 2016. The increase in cash from operating activities was driven by higher net income, favourable changes in net working capital and a decrease in cash interest paid. The increase in cash was partially offset by an increase in cash income taxes paid.

## Investing Activities

The following table provides a summary of Spin Master's consolidated cash flows used in investing activities for the three and twelve months ended December 31, 2017 and 2016:

(All amounts in USD 000's)	Three months ended December 31		
	2017	2016	\$ Change
<b>Capital expenditure in property, plant and equipment</b>			
Tooling	1,685	5,500	(3,815)
Other	3,416	2,890	526
<b>Total capital expenditures in property, plant and equipment</b>	<b>5,101</b>	<b>8,390</b>	<b>(3,289)</b>
<b>Intangible Assets</b>			
Brands, licenses and trademark acquisitions	—	(1)	1
Content development	(4,570)	(4,547)	(23)
Computer software	41	722	(681)
<b>Total capital expenditures in intangible assets</b>	<b>(4,529)</b>	<b>(3,826)</b>	<b>(703)</b>
<b>Total capital expenditures</b>	<b>572</b>	<b>4,564</b>	<b>(3,992)</b>
Disposals	—	(10)	10
Business acquisition (net of cash received)	9,046	—	9,046
<b>Cash used in investing activities</b>	<b>9,618</b>	<b>4,554</b>	<b>5,064</b>

(All amounts in USD 000's)	Year ended December 31		
	2017	2016	\$ Change
<b>Capital expenditure in property, plant and equipment</b>			
Tooling	19,505	19,574	(69)
Other	6,413	4,462	1,951
<b>Total capital expenditures in property, plant and equipment</b>	<b>25,918</b>	<b>24,036</b>	<b>1,882</b>
<b>Intangible Assets</b>			
Brands, licenses and trademark acquisitions	—	62	(62)
Content development	30,109	15,390	14,719
Computer software	1,155	2,090	(935)
<b>Total capital expenditures in intangible assets</b>	<b>31,264</b>	<b>17,542</b>	<b>13,722</b>
<b>Total capital expenditures</b>	<b>57,182</b>	<b>41,578</b>	<b>15,604</b>
Disposals	—	(10)	10
Business acquisition (net of cash received)	24,416	130,705	(106,289)
<b>Cash used in investing activities</b>	<b>81,598</b>	<b>172,273</b>	<b>(90,675)</b>

Cash used in investing activities were \$9,618 for the three months ended December 31, 2017 compared to \$4,554 for the same period in 2016. The increase in cash flows used in investing activities was driven primarily by higher cash flows used for business acquisitions, offset in part by decreased investment in capital expenditures in property, plant and equipment and the Company receiving tax credits associated with the production of television programming for the three months ended December 31, 2017. For the twelve months ended December 31, 2017 cash flows used in investing activities were \$81,598 compared to \$172,273 for the same period in 2016. The decrease in cash flows used in investing activities was primarily due to higher cash flows used for business acquisitions in the prior year, partially offset by higher investments in content development in the current year.

## Financing Activities

Cash flows used in financing activities were \$30,131 for the three months ended December 31, 2017 compared to \$5,260 for the for the same period in 2016. For the twelve months ended December 31, 2017, cash flows used in financing activities were \$161,485 compared to cash flows provided by financing activities of \$155,467 for the comparable period in 2016. Cash flows used in financing activities consist of reductions in bank indebtedness. In



addition, cash flows in the prior year were driven by the issuance of subordinate voting shares pursuant to a treasury offering in the second 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 the three and twelve months ended December 31, 2017 and 2016:

(All amounts in USD 000's)	Three months ended December 31		
	2017	2016	\$ Change
Cash flows provided by operating activities	109,525	62,310	47,215
<b>Plus:</b>			
Changes in net working capital	(90,514)	(61,637)	(28,877)
<b>Net cash flows provided by operating activities before working capital changes</b>	<b>19,011</b>	<b>673</b>	<b>18,338</b>
<b>Less:</b>			
Cash flows used in investing activities	(9,618)	(4,554)	(5,064)
<b>Plus:</b>			
Cash used for License, Brand and Business Acquisitions	9,046	—	9,046
<b>Free Cash Flow</b>	<b>18,439</b>	<b>(3,881)</b>	<b>22,320</b>

(All amounts in USD 000's)	Year ended December 31		
	2017	2016	\$ Change
Cash flows provided by operating activities	267,405	73,038	194,367
<b>Plus:</b>			
Changes in net working capital	(16,782)	87,220	(104,002)
<b>Net cash flows provided by operating activities before working capital changes</b>	<b>250,623</b>	<b>160,258</b>	<b>90,365</b>
<b>Less:</b>			
Cash flows used in investing activities	(81,598)	(172,273)	90,675
<b>Plus:</b>			
Cash used for License, Brand and Business Acquisitions	24,416	130,705	(106,289)
<b>Free Cash Flow</b>	<b>193,441</b>	<b>118,690</b>	<b>74,751</b>

Free Cash Flow was \$18,439 for the three months ended December 31, 2017 compared to negative \$3,881 for the same period in 2016. For the twelve months ended December 31, 2017, Free Cash Flow was \$193,441 an increase of \$74,751 compared to the same period in 2016. The increase in Free Cash Flow was driven by an increase in cash generated by operating activities before working capital changes, a decrease in cash flows used in investing activities and a decrease in cash used for license, brand and business acquisitions.

## 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 Spin Master's contractual commitments and obligations as at December 31, 2017, which are primarily for 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	6,832	40,859	16,231	63,922
Minimum guarantees due to licensors	47,331	—	—	47,331
Borrowings	531	—	—	531
<b>Total commitments</b>	<b>54,694</b>	<b>40,859</b>	<b>16,231</b>	<b>111,784</b>

## 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 7, 2018, there were 73,549,812 Multiple Voting Shares outstanding and 28,126,094 Subordinate Voting Shares outstanding.

As of March 7, 2018 pursuant to grants under the Company's Long-Term Incentive Plan, 325,415 Subordinate Voting Shares were issuable under outstanding Restricted Stock Units, up to 1,065,536 Subordinate Voting Shares were issuable under outstanding Performance Share Units (assuming vesting at 200%) and 552,699 Subordinate Voting shares were issuable under outstanding Share Option grants.

On May 24, 2017, the three founders of the Company completed a public offering of 3,681,000 subordinate voting shares of the Company at a price of CDN\$40.75 (US\$30.21) per share, for aggregate gross proceeds to the selling shareholders of CDN\$150,000 (US\$111,193). To satisfy the sale, the selling shareholders converted in aggregate 3,681,000 multiple voting shares into subordinate voting shares on a one-for-one basis. The Company did not receive any proceeds from the sale of subordinate voting shares associated with this offering.

## 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 2017, the top three customers collectively accounted for approximately 48.8% 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 programs 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 over-producing 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.

***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 or employees 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 foreign 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 foreign exchange rates ("transaction exposures") and because the non-US dollar denominated financial statements of the Company's subsidiaries may vary on translation 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.

### **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 48% and 52% of consolidated gross product sales for the twelve month periods ended December 31, 2017 and 2016 respectively.

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, when available.

## **RELATED PARTY TRANSACTIONS**

There were no related party transactions included in the consolidated financial statements of the Company as at December 31, 2017.

## **CRITICAL ACCOUNTING ESTIMATES**

The Company's significant accounting policies are described in Note 3 of the Company's fiscal 2017 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 ("CGU") 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 CGUs of the Company.

### **Functional currency**

Transactions in foreign currencies are translated to the respective functional currencies of Company entities at foreign 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 depreciation methods, useful lives and residual values annually or when circumstances change and adjusts its depreciation methods and assumptions prospectively.

### **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 CGU 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 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", which replaces IAS 11 - *Construction Contracts*, IAS 18 - *Revenue* and International Financial Reporting Interpretations Committee 13 - *Customer Loyalty Programs* ("IFRIC 13"), as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; except for contracts that are within the scope of the standards on leases, insurance contracts, and financial instruments. IFRS 15 also contains enhanced disclosure requirements. The standard is effective for annual periods beginning on or after January 1, 2018.

In April 2016, the IASB published clarifications to IFRS 15 which addressed three topics (identifying performance obligations, principal versus agent considerations, and licensing) and provides some transition relief for modified contracts and completed contracts. The amendments are effective for annual periods beginning on or after January 1, 2018.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). The Company will adopt the standard using the full retrospective method to restate each prior reporting period presented.

In preparation for adoption of the standard, the Company has completed the review of relevant contracts and has concluded there will be no material transitional adjustment upon adoption and no material changes in the timing of revenue recognition is expected once adopted.

### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9, "Financial Instruments". The new standard includes revised guidance on the classification and measurement of financial assets, including impairment, as well as new hedge accounting principles.

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, fair value through other comprehensive income ("FVOCI") 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 or FVOCI. A debt instrument that has cash flows which represent solely payments of principal and interest is measured at amortized cost only if it is held to collect the contractual cash flows or FVOCI if it is held to collect and sale contractual cash flows. 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.

IFRS 9 introduces a new expected credit loss ("ECL") model for all financial assets in scope of the impairment requirements. The new ECL will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event.

In preparation for adoption of the standard, the Company has completed its assessment of the implications of implementing the new standard and has concluded there will be no material transitional adjustment upon adoption and no material changes are expected once adopted.

#### *IFRS 2 Share Based Payments*

The IASB issued amendments to IFRS 2 "Share Based Payments". The amendment is intended to clarify 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.

#### *IFRIC 22 Foreign Currency Transactions and Advance Consideration*

IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation addresses how to determine the date of the transaction for the purpose of determining the foreign exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The IASB has reached the consensus that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. IFRIC 22 is effective for annual reporting periods beginning on or after January 1, 2018. The Company is evaluating the impact on its financial statements.

#### *IFRIC 23 Uncertainty over income tax treatments*

In June 2017, the IASB issued IFRIC 23 to clarify how the requirements of IAS 12 Income Taxes should be applied when there is uncertainty over income tax treatments. The interpretation specifically addresses:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How and entity determine taxable profit (or loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

The interpretation is effective for annual periods beginning on or after January 1, 2019, with modified retrospective or retrospective application. The Company is currently evaluating the impact of IFRIC 23 on its 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 and 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.

## **FINANCIAL INSTRUMENTS**

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

As at December 31, 2017, the Company is committed under outstanding foreign exchange contracts to purchase USD, representing total purchase commitments of approximately \$48,060 (2016 - \$162,777).

## **DISCLOSURE CONTROLS AND PROCEDURES**

The Co-Chief Executive Officers and the Chief Financial Officer (the “Certifying Officers”) 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, 2017 and have concluded that the Company’s DC&P was effective as at December 31, 2017.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Certifying Officers 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, 2017 and have concluded that the Company’s ICFR was effective as at December 31, 2017.

There have been no changes in the Company’s ICFR during the three-month period ended December 31, 2017 which have materially affected, or are reasonably likely to materially affect, the Company’s ICFR.

## **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.

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, 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 finance costs, income tax expense 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 net 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 tooling expenditures) and the production of television 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 product category and geographical segment 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.

Constant Currency represents Revenue and Gross Product Sales results that are presented excluding the impact from changes in foreign 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 exchange rates.

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. The Company believes that lenders, securities analysts, investors and other interested parties frequently use these non-IFRS financial measures in the evaluation of issuers.



## Reconciliation Tables

The following table presents a reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted Net Income, and Cash from Operations to Free Cash Flow for the fiscal years ended December 31, 2017, 2016 and 2015:

(All amounts in USD 000's)	Year ended December 31		
	2017	2016	2015
<b>Reconciliation of Non-IFRS Financial Measures</b>			
Net income	161,066	99,515	47,074
Income tax expense	59,363	38,364	32,559
Finance costs	10,445	8,601	6,539
Depreciation and amortization	44,908	30,490	22,877
<b>EBITDA (1)</b>	<b>275,782</b>	<b>176,970</b>	<b>109,049</b>
Normalizations Adjustments:			
Restructuring (2)	1,680	1,823	3,528
Recovery of contingent liability (3)	—	(222)	(457)
Foreign exchange (gain) loss (4)	(11,370)	5,530	6,477
Offering costs (5)	—	—	925
Share based compensation (6)	10,082	20,943	50,658
One-time income form transfer of non business related assets (7)	—	—	(9,690)
One-time service fee income (8)	—	—	(5,000)
Impairment of intangible asset (9)	9,032	—	659
One-time legal expense (10)	—	—	3,325
Amortization of fair market value adjustments (11)	2,805	—	975
Acquisition related incentive compensation (12)	—	467	—
One-time transaction costs (13)	1,000	—	—
One-time bad debt expense (14)	5,382	—	—
One-time royalty recovery (15)	(2,200)	—	—
<b>Adjusted EBITDA (1)</b>	<b>292,193</b>	<b>205,511</b>	<b>160,449</b>
Income tax expense (16)	59,363	38,364	21,843
Finance costs (16)	10,445	8,601	3,547
Depreciation and amortization	44,908	30,490	22,877
Tax effect of normalization adjustments (17)	4,480	7,941	13,583
<b>Adjusted Net Income (1)</b>	<b>172,997</b>	<b>120,115</b>	<b>98,608</b>
<b>Cash provided by operating activities</b>	<b>267,405</b>	<b>73,038</b>	<b>55,640</b>
<b>Plus:</b>			
Changes in net working capital	(16,782)	87,220	50,044
<b>Cash provided by operating activities before net working capital changes</b>	<b>250,623</b>	<b>160,258</b>	<b>105,684</b>
<b>Less:</b>			
Cash used in investing investing activities	(81,598)	(172,273)	(93,573)
<b>Plus:</b>			
Cash used for license, brand and business acquisitions	24,416	130,705	55,038
<b>Free Cash Flow (1)</b>	<b>193,441</b>	<b>118,690</b>	<b>67,149</b>

1) See "Non-IFRS Financial Measures".

2) 2017 and 2016 restructuring primarily related to organizational changes. 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 in 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) Share 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 assets related to content development, licenses, brands and trademarks.
- 10) One-time legal expense related to an outstanding litigation matter in Q4 2015.
- 11) Amortization of fair market value adjustments to inventory relating to the acquisition of Marbles and Aerobie in the second and third quarters of 2017 respectively, Swimways in the third quarter of 2016 and Cardinal in the fourth quarter of 2015.
- 12) Remuneration expense associated with contingent consideration for the Swimways acquisition.
- 13) One-time transaction costs relating to Marbles acquisition in the second quarter of 2017.
- 14) One-time bad debt expense related to the bankruptcy declaration of TRU in Canada and the United States during the third quarter of 2017.
- 15) One-time royalty income recovery related to the prior year.
- 16) Income tax expense and finance costs have been adjusted for 2015 to exclude impacts related to the settlement of certain tax matters as they are not reflective of on-going costs of the business.
- 17) Tax effect of normalization adjustments (Footnotes 2-15). Normalization adjustments are tax effected at the effective tax rate of the given period.

## FORWARD-LOOKING STATEMENTS

Certain statements, other than statements of historical fact, contained in this MD&A 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 MD&A. 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 MD&A 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; the expected receipt of eligible tax credits; the impact of TRU’s Chapter 11 and CCAA proceedings on the Company; impact of acquisitions on future financial performance, and the successful execution of its strategies for growth; and 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 MD&A, 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 MD&A, 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 sales from acquired brands; 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 products and entertainment properties will be launched as scheduled and that the risk factors noted in this MD&A, 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 MD&A. Such risks and uncertainties include, without limitation, the factors discussed in the Company's disclosure materials, including this MD&A and the Company's most recent Annual Information Form, filed with the securities regulatory authorities in Canada and available under the Company's profile on SEDAR ([www.sedar.com](http://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, 2017 and December 31, 2016, 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, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants  
Licensed Public Accountants  
March 7, 2018

# Spin Master Corp.

Consolidated statements of financial position as at December 31, 2017 and December 31, 2016

(In thousands of United States dollars)	Notes	2017	2016
<b>Assets</b>			
Current assets			
Cash		117,262	99,416
Trade and other receivables	9	369,719	295,068
Inventories	10	120,329	79,924
Prepaid expenses		20,500	21,398
		<b>627,810</b>	<b>495,806</b>
Non-current assets			
Advances on royalties		5,000	11,695
Property, plant and equipment	11	32,978	26,996
Intangible assets	12	145,165	130,390
Goodwill	13	105,487	91,707
Deferred tax assets	8	21,945	19,002
		<b>310,575</b>	<b>279,790</b>
<b>Total assets</b>		<b>938,385</b>	<b>775,596</b>
<b>Liabilities</b>			
Current liabilities			
Trade payables and other liabilities	14	350,757	228,935
Loans and borrowings	15	531	158,107
Deferred revenues		10,472	5,500
Provisions	16	25,398	26,454
Interest payable		45	6
Income tax payable	8	37,290	12,331
		<b>424,493</b>	<b>431,333</b>
Non-current liabilities			
Loans and borrowings	15	—	38
Provisions	16	5,735	12,025
Other long-term liabilities		—	110
Deferred tax liabilities	8	8,075	6,411
		<b>13,810</b>	<b>18,584</b>
<b>Total liabilities</b>		<b>438,303</b>	<b>449,917</b>
<b>Shareholders' equity</b>			
Share capital	17	681,310	670,115
Accumulated deficit		(247,340)	(408,406)
Contributed surplus		20,323	21,436
Accumulated other comprehensive income		45,789	42,534
<b>Total shareholders' equity</b>		<b>500,082</b>	<b>325,679</b>
<b>Total liabilities and shareholders' equity</b>		<b>938,385</b>	<b>775,596</b>

Approved by the Board of Directors on March 7, 2018.

The accompanying notes on pages 5 to 45 are an integral part of these consolidated financial statements.

# Spin Master Corp.

## Consolidated statements of operations and comprehensive income

For the year ended December 31

(In thousands of United States dollars, except share data)

	Notes	2017	2016
Revenue	4	1,551,324	1,154,454
Cost of sales		750,868	557,712
<b>Gross profit</b>		<b>800,456</b>	<b>596,742</b>
Expenses			
Selling, marketing, distribution and product development	7	312,186	243,689
Administrative expenses	7	262,066	201,008
Other expenses	5	6,700	35
Foreign exchange (gain) loss		(11,370)	5,530
Finance costs	6	10,445	8,601
<b>Income before income tax expense</b>		<b>220,429</b>	<b>137,879</b>
Income tax expense	8	59,363	38,364
<b>Net income</b>		<b>161,066</b>	<b>99,515</b>
Items that may be subsequently reclassified to net income or loss			
Currency translation adjustment		3,255	(863)
<b>Other comprehensive income (loss)</b>		<b>3,255</b>	<b>(863)</b>
<b>Total comprehensive income</b>		<b>164,321</b>	<b>98,652</b>
<b>Earnings per share</b>			
Basic and diluted	18	1.58	0.99
<b>Weighted average number of common shares outstanding</b>			
Basic	18	101,675,906	100,647,133
Diluted	18	101,846,680	100,702,757

The accompanying notes on pages 5 to 45 are an integral part of these consolidated financial statements.

# Spin Master Corp.

## Consolidated statements of changes in equity

(In thousands of United States dollars)	Note	Share capital	Accumulated deficit	Contributed surplus	Accumulated other comprehensive income	Total
<b>Balance at January 1, 2016</b>		<b>589,263</b>	<b>(507,921)</b>	<b>31,580</b>	<b>43,397</b>	<b>156,319</b>
Net income		—	99,515	—	—	99,515
Currency translation adjustment		—	—	—	(863)	(863)
Share-based compensation	17	—	—	20,943	—	20,943
Issuance of subordinate shares, net of transaction costs	17	48,394	—	—	—	48,394
Shares released from equity participation	17	32,458	—	(31,087)	—	1,371
<b>Balance at December 31, 2016</b>		<b>670,115</b>	<b>(408,406)</b>	<b>21,436</b>	<b>42,534</b>	<b>325,679</b>
<b>Balance at January 1, 2017</b>		<b>670,115</b>	<b>(408,406)</b>	<b>21,436</b>	<b>42,534</b>	<b>325,679</b>
Net income		—	161,066	—	—	161,066
Currency translation adjustment		—	—	—	3,255	3,255
Share-based compensation	17	—	—	10,082	—	10,082
Shares released from equity participation	17	11,195	—	(11,195)	—	—
<b>Balance at December 31, 2017</b>		<b>681,310</b>	<b>(247,340)</b>	<b>20,323</b>	<b>45,789</b>	<b>500,082</b>

The accompanying notes on pages 5 to 45 are an integral part of these consolidated financial statements.

# Spin Master Corp.

## Consolidated statements of cash flows

For the year ended December 31

(In thousands of United States dollars)

	Notes	2017	2016
<b>Operating activities</b>			
Net income		161,066	99,515
Adjustments to reconcile net income to net cash provided by operating activities			
Income tax expense	8	59,363	38,364
Interest expense	6	3,357	2,833
Depreciation and amortization	7, 11, 12	44,908	30,490
Amortization of fair value increments to inventories acquired in business combinations		2,805	—
Accretion expense	6	2,559	2,868
Amortization of financing costs	6	879	602
Impairment of non-current assets	5	9,693	265
Share-based compensation expense	17	10,082	20,943
Changes in net working capital	19	16,782	(87,220)
Changes in contingent consideration liabilities		(6,290)	3,567
Income taxes paid		(34,878)	(33,233)
Interest paid		(2,921)	(5,956)
<b>Cash provided by operating activities</b>		<b>267,405</b>	<b>73,038</b>
<b>Investing activities</b>			
Capital expenditures - property, plant and equipment	11	(25,918)	(24,036)
Capital expenditures - intangible assets	12	(31,264)	(17,542)
Disposal of property, plant and equipment		—	10
Business acquisitions, net of cash acquired	23	(24,416)	(130,705)
<b>Cash used in investing activities</b>		<b>(81,598)</b>	<b>(172,273)</b>
<b>Financing activities</b>			
Proceeds from borrowings	15	25,791	204,000
Repayment of borrowings	15	(187,276)	(96,242)
Issuance of subordinate voting shares, net of transaction costs	17	—	47,709
<b>Cash (used in) provided by financing activities</b>		<b>(161,485)</b>	<b>155,467</b>
<b>Effect of foreign currency exchange rate changes on cash</b>		<b>(6,476)</b>	<b>(2,529)</b>
<b>Net increase in cash during the year</b>		<b>17,846</b>	<b>53,703</b>
Cash, beginning of year		99,416	45,713
<b>Cash, end of year</b>		<b>117,262</b>	<b>99,416</b>

The accompanying notes on pages 5 to 45 are an integral part of these consolidated financial statements.



# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

---

## 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 25). 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, Switzerland and Poland. The Rest of World segment is primarily comprised of Hong Kong, China, Australia and Mexico, as well as all other areas of the world serviced by the Company's distribution network.

## 2. Summary of 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 ("USD"), except as otherwise indicated.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 7, 2018.

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

#### *Amendments to International Accounting Standard ("IAS") 7 - Statement of Cash Flows*

The amendments to IAS 7 Statement of Cash Flows are part of the International Accounting Standards Board's ("IASB") Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

The amendment was adopted on January 1, 2017. The amendment does not have a significant impact on the Company's consolidated financial statements for the year ended December 31, 2017.

#### *Amendments to IAS 12 - Recognition of deferred tax assets for unrealized losses*

The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

The amendment was adopted on January 1, 2017, 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 (the "Group"). Control is achieved when the Company:

- has power over the investee;

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

---

## 2. Significant accounting policies (continued)

### *(C) Basis of preparation (continued)*

- 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.

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.

The Company has reclassified certain sales tax receivable and sales tax payable balances for the comparative period in the statement of financial position, in order to reflect the appropriate netting of sales tax receivable and payable accounts, in accordance with IAS 12 "Income Taxes". The impact of the reclassification was an increase of \$22,164 in trade and other receivables and a corresponding increase in trade payables and other liabilities as at December 31, 2016.

### **(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.

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 CGUs) that are expected to benefit from the combination.

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

---

## 2. Significant accounting policies (*continued*)

### (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; and
- 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 allow 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 deferred 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.

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.

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

---

## 2. Significant accounting policies (*continued*)

### (H) Foreign currencies

The Company reports its financial results in USD; 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 USD 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, 2017 and 2016, 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 net income by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted average number of 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 "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.

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 net income before taxes. 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.

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

---

## 2. Significant accounting policies (continued)

### (J) Income taxes (continued)

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:

Brands	Indefinite
Character trademarks	5 years
Customer lists	5 years
Intellectual property	10 years
Non-competition agreements	1 year
Content development	1-5 years
Computer software	1 year

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

---

## 2. Significant accounting policies (continued)

### *(M) Intangible Assets (continued)*

#### 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 if applicable 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 incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized 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.

#### 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 CGU to which the asset belongs. When a reasonable and consistent basis



# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

---

## 2. Significant accounting policies (*continued*)

### (M) Intangible assets (*continued*)

of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) 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 CGU) 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 CGU) 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 initially recorded as an asset and subsequently expensed to net income or loss 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.

#### 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 is recorded as a reduction to revenue in the consolidated statements of operations and comprehensive income.

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

---

## 2. Significant accounting policies (continued)

(P) Provisions (continued)

### 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 obligation 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 was 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 that 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
Loans from related parties	Other liabilities
Other long-term liabilities	Other liabilities
Foreign exchange forward contracts	FVTPL

### **(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.



# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

---

## 2. Significant accounting policies (*continued*)

(R) *Financial Assets (continued)*

### 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 classified as 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 offset 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 the Company are recognized as 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.

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.

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

---

## 2. Significant accounting policies (*continued*)

### (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 hierarchy and liquidity risk disclosure

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).

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

### (V) Accounting standards issued but not yet adopted

#### *IFRS 15 Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", which replaces IAS 11 - *Construction Contracts*, IAS 18 - *Revenue* and International Financial Reporting Interpretations Committee 13 - *Customer Loyalty Programs* ("IFRIC 13"), as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; except for contracts that are within the scope of the standards on leases, non-monetary transactions, insurance contracts, and financial instruments. IFRS 15 also contains enhanced disclosure requirements. The standard is effective for annual periods beginning on or after January 1, 2018.

In April 2016, the IASB published clarifications to IFRS 15 which addressed three topics (identifying performance obligations, principal versus agent considerations, and licensing) and provides some transition relief for modified contracts and completed contracts. The amendments are effective for annual periods beginning on or after January 1, 2018.

The guidance permits two methods of adoption: retrospectively to each prior reporting period restated (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). The Company will adopt the standard using the full retrospective method to restate each prior reporting period presented.

In preparation for adoption of the standard, the Company has completed the review of relevant contracts and has concluded there will be no material transitional adjustment upon adoption and no material changes in the timing of revenue recognition is expected once adopted.

#### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9, "Financial Instruments". The new standard includes revised guidance on the classification and measurement of financial assets, including impairment, as well as new hedge accounting principles.

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, fair value through other comprehensive income ("FVOCI") 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 or FVOCI. A debt instrument that has cash flows which represent solely payments of principal and interest is measured at amortized cost only if it is held to collect the contractual cash flows or FVOCI if it is held to collect and sale contractual cash flows. Otherwise it is measured at FVTPL. For financial liabilities designated as at FVTPL, the change in the fair value attributable to

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

---

## 2. Summary of Significant accounting policies *(continued)*

### *(W) Accounting standards issued but not yet applied (continued)*

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.

IFRS 9 introduces a new expected credit loss ("ECL") model for all financial assets in scope of the impairment requirements. The new ECL will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event.

In preparation for adoption of the standard, the Company has completed its assessment of the implications of implementing the new standard and has concluded there will be no material transitional adjustment upon adoption and no material changes are expected once adopted.

### *IFRS 2 Share Based Payments*

The IASB issued amendments to IFRS 2 "Share Based Payments". The amendment is intended to clarify 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.

### *IFRIC 22 Foreign Currency Transactions and Advance Consideration*

IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The IASB has reached the consensus that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. IFRIC 22 is effective for annual reporting periods beginning on or after January 1, 2018. The Company is evaluating the impact on its financial statements.

### *IFRIC 23 Uncertainty Over Income Tax Treatments*

In June 2017, the IASB issued IFRIC 23 to clarify how the requirements of IAS 12 Income Taxes should be applied when there is uncertainty over income tax treatments. The interpretation specifically addresses:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How and entity determine taxable profit (or loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

The interpretation is effective for annual periods beginning on or after January 1, 2019, with modified retrospective or retrospective application. The Company is currently evaluating the impact of IFRIC 23 on its 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 and 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.

## 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. The estimates and underlying assumptions are reviewed on an ongoing

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

---

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

basis, and adjustments 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 are CGUs of the Company.

##### (B) Functional currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates as of the dates the transactions occur. 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.

#### **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 CGU 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 required to sell. 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 contractual discounts, negotiated discounts, customer audits, defective products and costs incurred by customers to sell the Company's products. The

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

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

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.

## 4. Revenue

The Company earns revenue from the following primary sources:

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

Year ended December 31	2017	2016
Revenue from sale of goods	1,465,532	1,106,514
Other revenue	85,792	47,940
<b>Total revenue</b>	<b>1,551,324</b>	<b>1,154,454</b>

## 5. Other (income) expenses

Year ended December 31	2017	2016
Impairment of non-current assets (see Notes 11,12)	9,693	265
Revaluation of provisions	—	(222)
Other	(2,993)	(8)
<b>Total other expenses</b>	<b>6,700</b>	<b>35</b>

## 6. Finance costs

Year ended December 31	2017	2016
Interest on bank loans	3,357	2,833
Bank fees	3,650	2,228
Accretion expense	2,559	2,868
Amortization of financing costs	879	602
Other	—	70
<b>Total finance costs</b>	<b>10,445</b>	<b>8,601</b>

## 7. Costs included within expenses

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

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 7. Costs included within expenses (continued)

### *Research and development costs*

<b>Year ended December 31</b>	<b>2017</b>	<b>2016</b>
Research and development costs	23,365	22,017
<b>Total research and development costs</b>	<b>23,365</b>	<b>22,017</b>

### *Depreciation and amortization expense*

<b>Year ended December 31</b>	<b>2017</b>	<b>2016</b>
Depreciation and amortization included in cost of sales	34,679	23,680
Depreciation and amortization included in administrative expenses	10,229	6,810
<b>Total depreciation and amortization expense</b>	<b>44,908</b>	<b>30,490</b>

### *Employee benefits expenses*

<b>Year ended December 31</b>	<b>2017</b>	<b>2016</b>
Salaries, wages and bonuses	2,671	3,856
Other employee benefits	955	683
<b>Total employee benefits expenses in cost of sales</b>	<b>3,626</b>	<b>4,539</b>
Salaries, wages and bonuses	129,684	99,473
Share-based compensation	10,082	20,943
Termination benefits	1,680	1,823
Other employee benefits	28,509	14,236
<b>Total employee benefits expenses in administrative expenses</b>	<b>169,955</b>	<b>136,475</b>
<b>Total employee benefits expenses</b>	<b>173,581</b>	<b>141,014</b>

### *Selling, marketing, distribution and product development*

<b>Year ended December 31</b>	<b>2017</b>	<b>2016</b>
Selling	106,471	77,102
Marketing	128,713	112,339
Distribution	53,637	32,231
Product development	23,365	22,017
<b>Total selling, marketing, distribution and product development</b>	<b>312,186</b>	<b>243,689</b>

### *Administrative expenses*

<b>Year ended December 31</b>	<b>2017</b>	<b>2016</b>
Staff costs	169,955	136,474
Technology	8,382	5,131
Professional services	23,696	19,482
Property and operations	31,246	22,496
Depreciation of property, plant and equipment (excluding tooling)	10,229	6,896
Other	18,558	10,529
<b>Total administrative expenses</b>	<b>262,066</b>	<b>201,008</b>

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 8. Income taxes

*Income tax recognized in profit or loss*

<b>Year ended December 31</b>	<b>2017</b>	<b>2016</b>
Current tax expense	59,838	28,354
Deferred tax expense	(475)	10,010
<b>Total income tax expense</b>	<b>59,363</b>	<b>38,364</b>

Reconciliations of the income tax expense for the year at the statutory tax rate with the amounts presented in the consolidated statements of operations are as follows:

<b>Year ended December 31</b>	<b>2017</b>	<b>2016</b>
Net income before income taxes	220,429	137,879
Statutory tax rate (26.5%)	58,414	36,538
Adjustments		
Effect of expenses that are not deductible in determining taxable income	1,112	1,471
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	480	277
Effect of previously unrecognized unused tax losses and deductible temporary differences now recognized as deferred tax assets	(510)	(187)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(6,782)	(3,976)
Effect of tax rate changes	2,528	—
Effect of tax settlement with the Canada Revenue Agency on transfer pricing matter	—	(153)
Other	4,121	4,394
<b>Total income tax expense</b>	<b>59,363</b>	<b>38,364</b>

The tax rates used for the reconciliations above is the Canadian statutory tax rate of the parent 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*

<b>Year ended December 31</b>	<b>2017</b>	<b>2016</b>
Income tax payable	37,290	12,331
<b>Total income tax payable</b>	<b>37,290</b>	<b>12,331</b>

*Deferred tax balances*

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

<b>Year ended December 31</b>	<b>2017</b>	<b>2016</b>
Deferred tax assets	21,945	19,002
Deferred tax liabilities	(8,075)	(6,411)
<b>Net deferred tax asset</b>	<b>13,870</b>	<b>12,591</b>



# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 8. Income taxes (continued)

*Recognized deferred tax assets and liabilities*

As at December 31	2016	Recognized in profit or loss	Recognized in equity	2017
Deferred tax assets (liabilities) in relation to:				
Property, plant and equipment	1,104	(560)	70	614
Intangible assets	(3,990)	(276)	(242)	(4,508)
Provisions	5,021	2,834	317	8,172
Allowance for doubtful accounts	260	79	16	355
	2,395	2,077	161	4,633
Tax losses	9,538	(2,786)	602	7,354
Other	658	1,184	41	1,883
<b>Total deferred tax</b>	<b>12,591</b>	<b>475</b>	<b>804</b>	<b>13,870</b>

*Unrecognized deductible temporary differences and unused tax losses*

Year ended December 31	2017	2016
Tax losses	2,604	1,919
Other	—	2,139
<b>Total deductible temporary difference and unused tax losses</b>	<b>2,604</b>	<b>4,058</b>

Unused tax losses of \$1,077 will expire beyond 2027 and \$1,527 may be carried forward indefinitely.

*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, 2017, is \$228,749 (2016 - \$182,708).

## 9. Trade and other receivables

As at	December 31, 2017	December 31, 2016
Trade receivables	393,617	307,051
Provisions for sales allowances	(120,547)	(79,261)
Allowance for doubtful accounts	(2,789)	(2,684)
	<b>270,281</b>	<b>225,106</b>
Other receivables	99,438	69,962
<b>Total net trade and other receivables</b>	<b>369,719</b>	<b>295,068</b>

Trade receivables disclosed above include amounts that are past due as 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, 2017	December 31, 2016
60-90 days	9,697	7,077
91-120 days	7,229	3,031
> 120 days	35,771	34,244
<b>Total trade receivables past due but not impaired</b>	<b>52,697</b>	<b>44,352</b>



# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 9. Trade and other receivables (continued)

*Movement in the allowance for doubtful accounts*

<b>As at</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Balance at the beginning of the year	2,684	1,245
Impairment losses recognized on receivables	8,060	2,058
Amounts written off during the year as uncollectible	(7,636)	(409)
Impairment losses reversed	(424)	(237)
Foreign currency translation	105	27
<b>Balance as at December 31, 2017</b>	<b>2,789</b>	<b>2,684</b>

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

<b>As at</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Raw materials	10,931	9,114
Finished goods	109,398	70,810
<b>Total inventories</b>	<b>120,329</b>	<b>79,924</b>

The cost of inventories recognized as an expense in cost of sales during the year was \$670,621 (2016 - \$501,551).

During 2017, \$6,114 of inventories were written down to net realizable value (2016 - \$4,048). This charge is included within cost of sales in the consolidated statements of operations and comprehensive income.

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 11. Property, plant and equipment

	Moulds, dies and tools	Equipment	Property, land and building	Computer hardware	Total
<b>Cost</b>					
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)
<b>Total at December 31, 2016</b>	<b>95,884</b>	<b>15,401</b>	<b>9,453</b>	<b>8,415</b>	<b>129,153</b>
Additions	19,505	2,134	2,954	1,325	25,918
Asset retirements	(6,341)	(127)	(127)	(447)	(7,042)
Asset impairments	(660)	—	—	—	(660)
Foreign currency translation	3,916	706	590	470	5,682
<b>Total at December 31, 2017</b>	<b>112,304</b>	<b>18,114</b>	<b>12,870</b>	<b>9,763</b>	<b>153,051</b>
<b>Accumulated depreciation</b>					
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)
<b>Total at December 31, 2016</b>	<b>(77,019)</b>	<b>(11,228)</b>	<b>(6,410)</b>	<b>(7,500)</b>	<b>(102,157)</b>
Depreciation	(17,445)	(1,555)	(1,080)	(655)	(20,735)
Asset retirements	6,341	82	52	400	6,875
Foreign currency translation	(2,631)	(564)	(355)	(506)	(4,056)
<b>Total at December 31, 2017</b>	<b>(90,754)</b>	<b>(13,265)</b>	<b>(7,793)</b>	<b>(8,261)</b>	<b>(120,073)</b>
<b>Net carrying amount</b>					
<b>Total at December 31, 2016</b>	<b>18,865</b>	<b>4,173</b>	<b>3,043</b>	<b>915</b>	<b>26,996</b>
<b>Total at December 31, 2017</b>	<b>21,550</b>	<b>4,849</b>	<b>5,077</b>	<b>1,502</b>	<b>32,978</b>

For the year ended December 31, 2017, the Company recorded \$660 (2016 - \$265) of impairment losses in respect of 4 CGUs (2016 - 8). 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, 2017 and December 31, 2016

## 12. Intangible assets

	Brands - indefinite	Trademarks, licenses & customer lists - definite	Content development	Computer software	Total
<b>Cost</b>					
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
<b>Total at December 31, 2016</b>	<b>79,973</b>	<b>34,504</b>	<b>60,943</b>	<b>20,763</b>	<b>196,183</b>
Additions	—	—	30,109	1,155	31,264
Asset impairments	(5,734)	(3,045)	(859)	(5,288)	(14,926)
Asset acquisitions via business combinations	6,300	4,400	—	—	10,700
Foreign currency translation	2,463	124	4,487	1,517	8,591
<b>Total at December 31, 2017</b>	<b>83,002</b>	<b>35,983</b>	<b>94,680</b>	<b>18,147</b>	<b>231,812</b>
Balance, December 31, 2015	—	(402)	(29,688)	(16,197)	(46,287)
Amortization	—	(2,713)	(12,263)	(1,708)	(16,684)
Disposals	—	—	—	288	288
Foreign currency translation	—	(277)	(1,935)	(898)	(3,110)
<b>Total at December 31, 2016</b>	<b>—</b>	<b>(3,392)</b>	<b>(43,886)</b>	<b>(18,515)</b>	<b>(65,793)</b>
Amortization	—	(3,180)	(19,173)	(1,820)	(24,173)
Asset impairment	—	1,074	129	4,690	5,893
Foreign currency translation	—	(320)	(978)	(1,276)	(2,574)
<b>Total at December 31, 2017</b>	<b>—</b>	<b>(5,818)</b>	<b>(63,908)</b>	<b>(16,921)</b>	<b>(86,647)</b>
<b>Net carrying amount</b>					
<b>Balance at December 31, 2016</b>	<b>79,973</b>	<b>31,112</b>	<b>17,057</b>	<b>2,248</b>	<b>130,390</b>
<b>Balance at December 31, 2017</b>	<b>83,002</b>	<b>30,165</b>	<b>30,772</b>	<b>1,226</b>	<b>145,165</b>

Indefinite life intangibles have been allocated for impairment testing purposes to the following CGUs determined by brands:

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

### Impairment losses

For the year ended December 31, 2017, the Company recorded \$9,033 (2016 - \$nil) of impairment losses in respect of 3 CGUs (2016 - nil). Impairment losses are recorded where the carrying amount of the CGU exceeds its recoverable amount. The recoverable amount was based on the CGU's 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 11.5% per annum (2016: 11.1% per annum).

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 12. Intangible assets (continued)

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% (2016: 1.0%) 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 CGUs as follows:

<b>As at</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Spy Gear	5,047	7,577
Meccano Brand	2,221	2,221
Games and Puzzles	27,313	25,695
Swimways	27,790	24,690
Toca Boca	13,000	13,000
Etch A Sketch	7,631	6,790
<b>Total</b>	<b>83,002</b>	<b>79,973</b>

## 13. Goodwill

<b>As at</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Balance, beginning of year	91,707	36,130
Additions during the year	13,123	55,806
Foreign currency translation	657	(229)
<b>Total goodwill</b>	<b>105,487</b>	<b>91,707</b>

Goodwill has been allocated for impairment testing purposes to the following CGUs:

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

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

<b>As at December 31</b>	<b>2017</b>	<b>2016</b>
Spin Master UK	215	215
Meccano Brand	2,145	2,145
Tech Deck	1,206	1,206
Games and Puzzles	44,223	35,264
Etch A Sketch	4,148	3,933
Toca Boca	11,492	11,492
Swimways	42,058	37,452
<b>Total goodwill</b>	<b>105,487</b>	<b>91,707</b>

There have been no impairment losses recognized with respect to goodwill during 2017 (2016 - \$nil).

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 14. Trade payables and other liabilities

As at	December 31, 2017	December 31, 2016
Trade payables	155,519	92,171
Accrued liabilities	195,238	136,764
<b>Total trade payables and other liabilities</b>	<b>350,757</b>	<b>228,935</b>

## 15. Loans and borrowings

As at	December 31, 2017	December 31, 2016
<b>Unsecured debt (at amortized cost)</b>		
Loans from third parties (i)	44	215
	<b>44</b>	<b>215</b>
<b>Secured debt (at amortized cost)</b>		
Bank facilities (ii) and (iii)	532	160,831
	<b>576</b>	<b>161,046</b>
<b>Less:</b>		
Financing costs	45	2,901
<b>Total loans and borrowings</b>	<b>531</b>	<b>158,145</b>
Current	531	158,107
Non-current	—	38
<b>Total loans and borrowings</b>	<b>531</b>	<b>158,145</b>

- (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 1 year (2016 - 3 years). The weighted average effective interest rate on the loans is 1.27% per annum (2016 - 1.06% per annum).
- (ii) Variable rate secured facility with maximum borrowings of \$905 to finance television production. 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.

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, 2017, the Company had \$532 outstanding (December 31, 2016 - \$1,640) on the obligation.

On March 6, 2017 the Company entered into a Revolving Credit Facility (the "Production Facility") with a limit of \$31,867 to finance television and film production. The interest rate on amounts drawn under the Production Facility bear interest at a variable rate referenced to the lending institution's Canadian dollar prime rate. As at December 31, 2017, nil was drawn on the Production Facility.

- (iii) 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 \$280,000 to \$510,000. The new maturity date of the Facility is December 2021. Advances under the Facility may be used for general corporate purposes including refinancing existing Indebtedness, funding working capital requirements, permitted acquisitions and permitted distributions.

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;

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 15. Loans and borrowings (continued)

- 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 million 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.

The Company was in compliance with the total leverage and interest coverage ratio covenants as at December 31, 2017 and December 31, 2016.

As at December 31, 2017, the Company had utilized \$545 (December 31, 2016 - \$160,912) of its Facility: nil (December 31, 2016 - \$159,190) drawn in LIBOR Loans, nil drawn in Swing Line loans and \$545 (December 31, 2016 - \$1,722) drawn in letters of credit.

## 16. Provisions and contingent liabilities

As at December 31	2017	2016
Defectives (i)	8,956	10,943
Royalties (ii)	—	29
Supplier liabilities (iii)	5,826	5,202
Contingent consideration, acquisitions (iv)	16,351	22,305
<b>Total provisions</b>	<b>31,133</b>	<b>38,479</b>

Current	25,398	26,454
Non-current	5,735	12,025
<b>Total provisions</b>	<b>31,133</b>	<b>38,479</b>

	Defectives	Royalties	Supplier liabilities	Contingent consideration, acquisitions	Total
<b>As at December 31, 2015</b>	<b>6,038</b>	<b>584</b>	<b>3,493</b>	<b>8,458</b>	<b>18,573</b>
Provisions recognized	10,943	—	1,709	11,892	24,544
Accretion recognized	—	—	—	2,868	2,868
Reductions arising from payments	(6,038)	(334)	—	(861)	(7,233)
Revaluation of provisions	—	(221)	—	(52)	(273)
<b>As at December 31, 2016</b>	<b>10,943</b>	<b>29</b>	<b>5,202</b>	<b>22,305</b>	<b>38,479</b>
<b>As at December 31, 2016</b>	<b>10,943</b>	<b>29</b>	<b>5,202</b>	<b>22,305</b>	<b>38,479</b>
Provisions recognized	14,936	—	1,616	1,539	18,091
Accretion recognized	—	—	—	2,559	2,559
Reductions arising from payments	(16,923)	—	(992)	(6,773)	(24,688)
Revaluation of provisions	—	(29)	—	(3,279)	(3,308)
<b>As at December 31, 2017</b>	<b>8,956</b>	<b>—</b>	<b>5,826</b>	<b>16,351</b>	<b>31,133</b>

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 16. Provisions and contingent liabilities (continued)

### 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 23 which includes an earn-out payable over the next five calendar years. The fair value of the total contingent consideration on December 31, 2017 was \$16,351 (2016 - \$22,305) and is based on the achievement of certain financial performance criteria. The accretion of the earn-out is recorded in other (income) expense in 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. Share capital

(a) Authorized as at December 31, 2017 and December 31, 2016

Unlimited number of Multiple voting shares;

Unlimited number of Subordinate voting shares; and

Unlimited number of Preferred shares issuable in series.

As at	December 31,	December 31,
	2017	2016
Multiple voting shares	375,115	406,595
Subordinate voting shares	306,195	263,520
<b>Total share capital issued and outstanding</b>	<b>681,310</b>	<b>670,115</b>

	Number of shares	Number of shares
Multiple voting shares	73,549,812	77,230,812
Subordinate voting shares	28,126,094	24,445,309
<b>Total share capital issued and outstanding</b>	<b>101,675,906</b>	<b>101,676,121</b>

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

---

## 17. Share capital (*continued*)

### *Issued and outstanding*

On May 24, 2017 the three founders of the Company closed an offering of 3,681,000 subordinate voting shares of the Company at a price of \$30.21 per share, for aggregate gross proceeds to the selling shareholders of \$111,203. To satisfy the sale, the selling shareholders converted in aggregate 3,681,000 multiple voting shares into subordinate voting shares on a one-for-one basis. The Company did not receive any proceeds from the sale of subordinate voting shares associated with this offering.

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.

### *(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 (the "Initial Offering") of the Company. The Participation Arrangements served to reward past service and encourage retention. The terms of the Participation Arrangements differ between participants with vested 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 of 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 at December 31, 2017, 2,473,228 Subordinate voting shares have vested with a fair value of \$106,439 (December 31, 2016 - \$59,229).

#### **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).

The RSUs served to reward past service of the employees and align their interests 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 RSUs were accounted for as equity instruments as the Company had the ability and intent to settle the awards with Subordinate voting shares. The compensation expense for RSUs was 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.

#### **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.



# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 17. Share capital (continued)

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

	Year ended December 31,	
	2017	2016
Expense arising from equity-settled "Participation Agreement" transactions	8,689	14,270
Expense arising from equity-settled "RSU" transactions	—	5,949
Expense arising from share options	1,393	724
<b>Total share-based compensation expense</b>	<b>10,082</b>	<b>20,943</b>

Compensation expense of \$10,082 (2016 - \$20,943) is recorded in administrative expenses in the consolidated statement of operations and comprehensive income. A corresponding amount was recorded in contributed surplus.

In 2017, the Company incurred compensation expense of nil its financial results for RSU equity awards granted (2016 - \$5,949).

There was no activity for Participation Arrangements and RSUs since December 31, 2016 as shown below:

	Participation Agreement		RSUs	
	Number	Weighted average grant date fair value	Number	Weighted average grant date fair value
Balance as at December 31, 2016	4,739,038	65,174	747,521	10,280
Balance as at December 31, 2017	4,739,038	65,174	747,521	10,280

The weighted average remaining contractual life for Participation Arrangements outstanding as at December 31, 2017 is 24 months.

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, 2016	346,148	\$22.94
Granted during the period	206,551	\$37.64
<b>Balance as at December 31, 2017</b>	<b>552,699</b>	<b>\$28.43</b>

## 18. Earnings per share

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

	2017		2016	
	Weighted average number of shares	Per common share amount (\$)	Weighted average number of shares	Per common share amount (\$)
Basic	101,675,906	1.58	100,647,133	0.99
Diluted	101,846,680	1.58	100,702,757	0.99

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. As these share issuances are anti-dilutive, they are not included in the computation of diluted earnings per share.

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 19. Changes in net working capital

	Year ended December 31,	
	2017	2016
<b>(Increase) decrease in:</b>		
Trade and other receivables	(136,594)	(150,612)
Inventories	(42,384)	(39,205)
Prepaid expenses	1,005	(6,731)
Advances on royalties	5,160	(10,140)
	<b>(172,813)</b>	<b>(206,688)</b>
<b>Increase (decrease) in:</b>		
Trade payables and other liabilities	186,668	90,484
Deferred revenues	4,972	(1,265)
Provisions	(2,596)	30,249
Other	550	—
	<b>189,594</b>	<b>119,468</b>
<b>Total changes in net working capital</b>	<b>16,782</b>	<b>(87,220)</b>

## 20. 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.

There were no related party transactions included in consolidated financial statements of the Company as at December 31, 2017 and December 31, 2016.

### *Compensation of key management personnel*

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

Year ended December 31	2017	2016
Salaries, wages and bonuses	5,230	5,293
Other employee benefits	340	1,548
Share-based compensation	1,037	9,155
<b>Total compensation of key management personnel</b>	<b>6,607</b>	<b>15,996</b>

## 21. 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	2017	2016
Minimum lease payments	10,539	7,099
<b>Total minimum lease payments</b>	<b>10,539</b>	<b>7,099</b>

## 22. Commitments for expenditures

As at December 31, 2017, the Company had minimum guarantees to licensors of approximately \$47,331 (2016 - \$32,092).

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 22. Commitments for expenditures (continued)

*Non-cancellable operating lease commitments*

<b>As at December 31</b>	<b>2017</b>	<b>2016</b>
No later than 1 year	6,832	6,784
Later than 1 year and no later than 5 years	40,859	16,097
Later than 5 years	16,231	—
<b>Total lease commitments</b>	<b>63,922</b>	<b>22,881</b>

## 23. Business combinations

*Acquisition of Perplexus*

On November 30, 2017 the Company acquired certain assets related to the Perplexus product, co-invented in 2001 by Michael McGinnis and Klitsner Industrial Design Group of San Francisco and manufactured by Busy Life LLC.

Pursuant to the terms set forth in the agreement, the Company acquired control of Perplexus through the acquisition of certain assets, for a total purchase consideration of \$9,861 less an escrow for possible adjustments. In addition, the Company has agreed to pay an earn-out of up to \$2,000 per year based on Perplexus sales over a five year term, commencing January 1, 2018.

Included in the total purchase consideration of \$9,861 is \$815 related to the estimated fair value of the future earn-out payments as at the acquisition date. The total purchase consideration has been initially allocated to the identifiable intangible assets based on its estimated fair values of \$2,000 (related to the trade name), and \$7,861 of goodwill acquired. The assets are included in the games and puzzles product category, belonging to the North America segment effective November 30, 2017. The pro forma and actual results of operations for this acquisition have not been presented and are immaterial. The Company incurred \$90 in transactions related costs which have all been included in administrative expenses in the consolidated statements of operations and comprehensive income for the year ended December 31, 2017.

*Assets acquired at the date of acquisition*

	<b>Fair Value as at November 30, 2017</b>
<b>Assets acquired</b>	
Intangible assets	2,000
<b>Fair value of identifiable assets acquired</b>	<b>2,000</b>

*Goodwill arising on acquisition*

	<b>Total</b>
Consideration transferred	9,861
Fair value of identifiable assets acquired	2,000
<b>Goodwill arising from transaction</b>	<b>7,861</b>

Goodwill relates to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets. As at the date of acquisition, \$7,861 of goodwill is expected to be deductible for income tax purposes and is being amortized for tax purposes over 15 years.

*Net cash outflow on acquisition*

	<b>Total</b>
Consideration paid in cash	9,046
<b>Net cash outflow</b>	<b>9,046</b>

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 23. Business combinations (continued)

### ***Acquisition of Aerobie Inc. ("Aerobie")***

On July 28, 2017 the Company acquired certain assets of Aerobie, a privately held Company headquartered in Palo Alto, California. Aerobie is a manufacturer of outdoor flying disks and sports toys, which will complement the Company's existing products in the outdoor segment. Pursuant to the terms set forth in the agreement, the Company acquired control of Aerobie through the acquisition of certain assets, for total purchase consideration of \$11,418, less an escrow for possible adjustments. Additionally, the Company has agreed to pay additional consideration in the form of a royalty, calculated in each quarterly period of a three year royalty term, commencing January 1, 2018.

Included in the total purchase consideration of \$11,418 is \$724 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 \$6,100 (related to brands and customer relationships), \$4,606 of goodwill acquired and \$712 of inventory acquired. The assets are included in the Outdoor product category, belonging to the North America segment effective July 28, 2017. The pro forma and actual results of operations for this acquisition have not been presented and are immaterial. The Company incurred \$200 in transaction related costs which have been included in administrative expenses in the consolidated statement of operations and comprehensive income for the year ended December 31, 2017.

### Assets acquired at the date of acquisition

	Fair Value as at July 28, 2017
<b>Assets acquired</b>	
Inventories	712
Intangible assets	6,100
<b>Fair value of identifiable assets acquired</b>	<b>6,812</b>

### Goodwill arising on acquisition

	Total
Consideration transferred	11,418
Fair value of identifiable assets acquired	(6,812)
<b>Goodwill arising from transaction</b>	<b>4,606</b>

Goodwill relates to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets. As at the date of acquisition, \$4,606 of goodwill is expected to be deductible for income tax purposes and is being amortized for tax purposes over 15 years.

### Net cash outflow on acquisition

	Total
Consideration paid in cash	10,694
<b>Net cash outflow</b>	<b>10,694</b>

### ***Acquisition of Marbles Corporation***

On April 28, 2017, the Company acquired Marbles Holdings, LLC ("Marbles"), a privately held Company headquartered in Chicago, Illinois, pursuant to an asset purchase agreement. Marbles is a leader in brain-building and high-quality games, gifts and gadgets for all ages. The acquisition will complement the Company's existing products and builds upon the Company's substantial presence and will strengthen its position as a leader in the Games market. The Company obtained control of the Marbles business through the acquisition of brand-related patents, trademarks and inventory for the brands for total cash consideration of \$4,675.

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 23. Business combinations (continued)

### *Acquisition of Marbles Corporation (continued)*

The acquired assets were sold through a bankruptcy court approved sale process and include all of Marbles' proprietary and licensed games, warehoused inventory and the Marbles name and website. Spin Master submitted a bid for the assets and subsequently emerged as the successful bidder at the conclusion of the open auction sale process on April 24, 2017. The court overseeing the Marbles bankruptcy case issued an order approving the sale to Spin Master on April 26, 2017. The Company closed the acquisition of Marbles on April 28, 2017.

The total purchase consideration has been allocated to identifiable intangible assets based on their estimated fair values of \$2,600 (related to brands, trademarks and customer relationships). Additionally \$1,419 of net tangible assets were acquired. The assets are included in the Games & Puzzles product category, belonging to the North America segment effective April 28, 2017. The pro forma and actual results of operations for this acquisition have not been presented and are immaterial. The Company incurred \$1,218 in transaction related costs, \$262 of which have been included in administrative expenses and \$956 of which have been included in other expenses in the consolidated statement of operations and comprehensive income for the year ended December 31, 2017.

### *Assets acquired and liabilities recognized at the date of acquisition*

	Fair Value as at April 28, 2017
<b>Assets acquired</b>	
Inventories	983
Prepaid expenses	450
Intangible assets	2,600
	<b>4,033</b>
<b>Liabilities assumed</b>	
Royalties payable	14
	<b>14</b>
<b>Fair value of identifiable net assets acquired</b>	<b>4,019</b>

### *Goodwill arising on acquisition*

	Total
Consideration transferred	4,675
Fair value of identifiable net assets acquired	(4,019)
<b>Goodwill arising from transaction</b>	<b>656</b>

Goodwill relates to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets. As at the date of acquisition, \$656 of goodwill is expected to be deductible for income tax purposes and is being amortized for tax purposes at 5% declining balance.

### *Net cash outflow on acquisition*

	Total
Consideration paid in cash	4,675
<b>Net cash outflow</b>	<b>4,675</b>

### ***Prior year acquisitions***

#### ***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

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 23. Business combinations (continued)

### *Acquisition of Swimways Corporation ("Swimways") (continued)*

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 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.

### *Assets acquired and liabilities recognized at the date of acquisition*

<b>Assets acquired</b>	
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
	<b>58,129</b>
<b>Liabilities assumed</b>	
Trade payables and accrued liabilities	4,205
	<b>4,205</b>
<b>Fair value of identifiable net assets acquired</b>	<b>53,924</b>

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*

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

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 23. Business combinations (continued)

### *Acquisition of Swimways Corporation ("Swimways") (continued)*

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*

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

### *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.

### *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.

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 23. Business combinations (continued)

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

Assets acquired and liabilities recognized at the date of acquisition

	Fair value as at May 2, 2016
<b>Assets acquired</b>	
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
	<b>26,631</b>
<b>Liabilities assumed</b>	
Trade payables and accrued liabilities	733
Other liabilities	984
	<b>1,717</b>
<b>Fair value of identifiable net assets acquired</b>	<b>24,914</b>

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)
<b>Goodwill arising from transaction</b>	<b>7,184</b>

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.

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
<b>Net cash outflow</b>	<b>30,839</b>

### **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.



# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 23. Business combinations (continued)

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

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 7<sup>th</sup> 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
<b>Assets acquired</b>	
Cash	105
Trade and other receivables	138
Inventories	671
Intangible assets	1,983
	<b>2,897</b>
<b>Liabilities assumed</b>	
Trade payables and accrued liabilities	486
	<b>486</b>
<b>Fair value of identifiable net assets acquired</b>	<b>2,411</b>

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.

### *Goodwill arising on acquisition*

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

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.

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 23. Business combinations (continued)

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

### Net cash outflow on acquisition

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

### *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

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

### Goodwill arising on acquisition

	<b>Total</b>
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
<b>Goodwill arising from transaction</b>	<b>3,987</b>

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.

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 23. Business combinations (continued)

*Acquisition of assets of Etch A Sketch (continued)*

Net cash outflow on acquisition

	<b>Total</b>
Consideration paid in cash	8,950
<b>Net cash outflow</b>	<b>8,950</b>

## 24. Financial instruments and risk management

*Capital management*

Management includes the following items in its definition of capital:

<b>As at</b>	<b>2017</b>	<b>2016</b>
Capital components		
Short-term borrowings	531	158,107
Non-current borrowings	—	38
<b>Total debt</b>	<b>531</b>	<b>158,145</b>
Share capital	681,310	670,115
Contributed surplus	20,323	21,436
Accumulated deficit	(247,340)	(408,406)
<b>Total capital</b>	<b>454,824</b>	<b>441,290</b>

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 year ended December 31, 2017.

The Company is subject to capital requirements under the credit facility agreement, as described in Note 15. As at December 31, 2017, 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 translation 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.

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 24. Financial instruments and risk management (continued)

As at December 31, 2017, the Company is committed under outstanding foreign exchange contracts to purchase USD, representing total purchase commitments of approximately \$48,060 (2016 - \$162,777).

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

As at December 31	2017	2016
Financial Assets		
USD	335,123	161,090
CAD	19,248	10,027
Euros	56,173	91,696
Pound	25,881	39,598
Peso	40,392	21,266
Yen	19	—
Australian dollar	9,634	—
<b>Total Assets</b>	<b>486,470</b>	<b>323,677</b>
Financial Liabilities		
USD	85,569	293,838
CAD	145,330	58,687
Euros	38,863	8,183
Pound	9,402	7,366
Peso	14,750	2,537
Yen	99	—
Australian dollar	3,365	—
<b>Total Liabilities</b>	<b>297,378</b>	<b>370,611</b>

### Foreign currency risk - sensitivity analysis

The Company is consistently exposed to the Canadian dollar, the Peso, the British Pound 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, 2017, a 5% strengthening of the above currencies against the USD would have resulted in a decrease to net assets of \$3,508 (2016 - an increase to net assets of \$4,517).

The sensitivity analysis includes only outstanding foreign currency denominated monetary assets and liabilities, and adjusts their translation as at the end of 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 the year ended December 31, 2017, with all other variables held constant, a 50 basis point increase in interest rates would have resulted in no impact to net income for the year (2016 - a decrease to net income of \$600).

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 24. 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, 2017, approximately 33% (2016 - 43%) of the Company's trade receivables are from three major retail customers which represent approximately 48% of gross product sales for the year ended December 31, 2017 (2016 - 52%). The Company's credit insurance provides coverage for all of these customers.

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.

To the extent that interest rates are floating, 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.

The Company's contractual maturities are as follows:

	Less than 1 year	1 year to 5 years	Greater than 5 years	2017 Total
Trade payables and other liabilities	350,757	—	—	350,757
Loans and borrowings	531	—	—	531
Provisions	25,398	5,735	—	31,133
<b>Total as at December 31</b>	<b>376,686</b>	<b>5,735</b>	<b>—</b>	<b>382,421</b>

	Less than 1 year	1 year to 5 years	Greater than 5 years	2016 Total
Trade payables and other liabilities	228,935	—	—	228,935
Other long-term liabilities	—	110	—	110
Loan and borrowings	158,107	38	—	158,145
Provisions	26,454	12,025	—	38,479
<b>Total as at December 31</b>	<b>413,496</b>	<b>12,173</b>	<b>—</b>	<b>425,669</b>

### Financing facilities

As at December 31,	2017	2016
Secured bank loan facilities		
Amount used	531	160,831
Amount unused	510,373	343,450
<b>Total as at December 31</b>	<b>510,904</b>	<b>504,281</b>

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 24. 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 and their carrying amounts approximate their fair values.

The fair value of foreign exchange forward contracts represented an asset as at December 31, 2017 of \$971 and is recorded in other assets (2016 - liability \$78 and is 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.

## 25. 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 and 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 product category. The directors of the Company have chosen to organize the Company around the 3 operating segments as follows: (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 the Company's revenue and results from continuing operations by reportable segment:

	Year ended December 31	
	2017	2016
<b>Revenue by segment</b>		
North America	1,082,709	847,278
Europe	368,009	271,130
Rest of world	206,310	136,150
<b>Gross product sales</b>	<b>1,657,028</b>	<b>1,254,558</b>
Other revenue and sales allowances	(105,704)	(100,104)
<b>Total consolidated revenue</b>	<b>1,551,324</b>	<b>1,154,454</b>
<b>Segment income</b>		
North America	189,973	65,023
Europe	19,647	65,455
Rest of world	19,806	44,314
<b>Total segment income</b>	<b>229,426</b>	<b>174,792</b>
Corporate and other	(8,997)	(36,913)
<b>Income before income tax expense</b>	<b>220,429</b>	<b>137,879</b>

Revenues for North America include revenues attributable to Canada of \$142,707 (2016 - \$122,350) for the period ended December 31, 2017.

Revenue reported by segment above represents revenue generated from external customers. There were no inter-segment sales in the current year (2016 - \$nil). The Company does not include sales adjustments such as trade discounts and other allowances in reporting revenue by segment ("referred to as gross product sales").

# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

## 25. 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 income tax expense earned by each segment without allocation of other expenses, foreign exchange (gain) loss 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	2017	2016
<b>Assets</b>		
North America	489,390	571,267
Europe	99,819	105,561
Rest of world	138,087	37,596
<b>Total segment assets</b>	<b>727,296</b>	<b>714,424</b>
Corporate and other	211,089	61,172
<b>Total consolidated assets</b>	<b>938,385</b>	<b>775,596</b>

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

As at December 31	2017	2016
<b>Non-current assets</b>		
North America	204,136	140,880
Europe	12,741	10,519
Rest of world	9,665	6,042
<b>Total segment non-current assets</b>	<b>226,542</b>	<b>157,441</b>
Corporate and other	84,033	122,349
<b>Total consolidated non-current assets</b>	<b>310,575</b>	<b>279,790</b>

Non-current assets for North America include non-current assets attributable to Canada of \$82,862 (2016 - \$68,902) for the periods ending December 31, 2017.

### Segment liabilities

As at December 31	2017	2016
<b>Liabilities</b>		
North America	295,313	220,317
Europe	60,619	25,116
Rest of world	55,335	15,518
<b>Total segment liabilities</b>	<b>411,267</b>	<b>260,951</b>
Corporate and other	27,036	188,966
<b>Total consolidated liabilities</b>	<b>438,303</b>	<b>449,917</b>

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 CGUs. 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 other liabilities) and deferred tax liabilities. 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, 2017 and December 31, 2016

## 25. Segment information (continued)

### Depreciation and amortization by segment

Year ended December 31	2017	2016
<b>Depreciation and amortization by segment</b>		
North America	33,681	24,193
Europe	5,207	3,100
Rest of world	3,216	1,808
<b>Total segment depreciation and amortization</b>	<b>42,104</b>	<b>29,101</b>
Corporate and other	2,804	1,389
<b>Total consolidated depreciation and amortization</b>	<b>44,908</b>	<b>30,490</b>

In addition to the depreciation and amortization reported above, impairment losses of \$9,693 (2016 - \$265) were recognized in respect of property, plant and equipment and intangible assets, for the year ended December 31, 2017. These impairment losses were attributable to the following reportable segments:

Year ended December 31	2017	2016
<b>Impairment losses</b>		
North America	9,033	—
Rest of world	660	265
<b>Total impairment losses</b>	<b>9,693</b>	<b>265</b>

### 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	2017	2016
<b>Revenue from product categories</b>		
Activities, games and puzzles, and fun furniture	365,378	337,768
Remote control and interactive characters	593,355	282,777
Boys action and high-tech construction	112,102	154,454
Pre-school and girls	493,069	460,484
Outdoor	93,124	19,075
<b>Gross product sales</b>	<b>1,657,028</b>	<b>1,254,558</b>
Other revenues and sales allowances	(105,704)	(100,104)
<b>Total revenues</b>	<b>1,551,324</b>	<b>1,154,454</b>

### Major customers

Sales to the Company's largest customers accounted for 48.1% and 52.0% of consolidated gross product sales for 2017 and 2016 respectively. Sales to single customers of the company that contributed 10% or more to gross product sales include three customers. The largest customer contributed \$363,674 (2016 - \$303,952) while the second and third largest customers each contributed \$230,696 (2016 - \$193,343) and \$203,425 (2016 - \$154,119), respectively. No other single customer contributed 10% or more to gross product sales of the company for 2017 and 2016.



# Spin Master Corp.

Consolidated financial statements for the years ended December 31, 2017 and December 31, 2016

---

## 26. Events after the reporting period

On February 28, 2018, the Company signed an agreement to acquire certain assets relating to the Gund line of business from Enesco LLC for \$79.1 million. Gund is a manufacturer and distributor of plush toys and is best known for its' line of teddy bears. Established in 1898, Gund has a 120-year history as a market leader and toy industry pioneer widely known for its high quality and innovative design. Headquartered in Edison, New Jersey, Gund distributes product throughout the United States, Canada, Europe, Japan, Australia and South America. The acquisition will allow Spin Master to build a stable platform for expansion into the infant toy and specialty gift categories and further grow the business internationally. Gund will be included in the Activities, Games and Puzzles and Fun Furniture business segment. The purchase consideration will be funded from internally generated cash resources and the Company's existing Credit Facility. The acquisition is expected to close on April 1, 2018.



## SHAREHOLDER INFORMATION

### Head Office

121 Bloor Street East  
Toronto, ON M4W 3M5

### Toronto Stock Exchange Listing

Trading symbol: TOY  
Securities listed: Subordinate  
Voting Shares

### Registrar and Transfer Agent

Computershare Investor Services Inc.  
100 University Avenue, 8<sup>th</sup> Floor  
Toronto, ON M5J 2Y1

### Auditors

Deloitte LLP  
8 Adelaide Street West, Suite 200  
Toronto, ON M5H 0A9

### Annual Meeting of Shareholders

May 9, 2018  
Blake, Cassels & Graydon LLP  
199 Bay Street, Suite 4000  
Toronto, ON M5L 1A9

### Investor Contact Information

Email: [investor.relations@spinmaster.com](mailto:investor.relations@spinmaster.com)

## BOARD OF DIRECTORS

John Cassaday, Lead Director 2017

Jeffrey I. Cohen  
Ben Gadbois  
Ronnen Harary  
Dina Howell  
Anton Rabie  
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 and Chief Operating  
Officer

Ben Varadi  
Executive Vice President and Chief  
Creative Officer

Bill Hess  
Executive Vice President of Operations  
and Chief Information Officer

Christopher Harrs  
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 evergreen global entertainment properties; international sales expansion; acquisitions; partnering with others; new products and entertainment properties to be introduced in 2018 and beyond. The words "believe", "focus", "expectations", "plan", "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", "achieve", or "execute" 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 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 of 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, 2017: 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; 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.



[WWW.SPINMASTER.COM](http://WWW.SPINMASTER.COM)

