

Condensed consolidated interim financial statements of

**Spin Master Corp.**

For the second quarter ended June 30, 2015

# Spin Master Corp.

June 30, 2015 and June 30, 2014

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# Spin Master Corp.

Condensed consolidated statements of operations and comprehensive income (loss)

Three and six month periods ended June 30, 2015 and 2014

(Unaudited, in thousands of United States dollars, except share and per share amounts)

	Note	Three months ended June 30,		Six months ended June 30,	
		2015	2014	2015	2014
		\$	\$	\$	\$
<b>Revenue</b>	3	<b>127,702</b>	106,545	<b>234,169</b>	184,241
Cost of sales		<b>62,337</b>	54,193	<b>112,109</b>	93,899
<b>Gross profit</b>		<b>65,365</b>	52,352	<b>122,060</b>	90,342
<b>Expenses</b>					
Selling, marketing, distribution and product development		<b>23,535</b>	22,880	<b>46,119</b>	39,123
Administrative and other expenses		<b>31,506</b>	25,125	<b>61,344</b>	49,340
Foreign exchange loss (gain)		<b>(75)</b>	628	<b>1,552</b>	(1,354)
Finance costs	4	<b>225</b>	671	<b>495</b>	1,331
Net income before income tax expense	5	<b>10,174</b>	3,048	<b>12,550</b>	1,902
Income tax expense	6	<b>2,600</b>	978	<b>3,308</b>	539
<b>Net income</b>		<b>7,574</b>	2,070	<b>9,242</b>	1,363
<b>Items that may be subsequently reclassified to profit or loss</b>					
Foreign currency translation, net of taxes		<b>(3,163)</b>	(5,578)	<b>9,111</b>	424
Other comprehensive income (loss)		<b>(3,163)</b>	(5,578)	<b>9,111</b>	424
<b>Comprehensive income (loss)</b>		<b>4,411</b>	(3,508)	<b>18,353</b>	1,787
Comprehensive income (loss) attributable to:					
Owners of the Company		<b>2,957</b>	(4,217)	<b>17,653</b>	1,610
Non-controlling interests		<b>1,454</b>	709	<b>700</b>	177
		<b>4,411</b>	(3,508)	<b>18,353</b>	1,787
Net income attributable to:					
Owners of the Company		<b>6,310</b>	1,983	<b>7,691</b>	1,140
Non-controlling interests		<b>1,264</b>	87	<b>1,551</b>	223
		<b>7,574</b>	2,070	<b>9,242</b>	1,363
<b>Earnings per share attributable to owners of the Company</b>					
Basic and diluted	13	<b>0.07</b>	<b>0.02</b>	<b>0.09</b>	<b>0.01</b>
<b>Weighted average of common shares outstanding</b>		<b>85,234,485</b>	<b>85,234,485</b>	<b>85,234,485</b>	<b>85,234,485</b>

The accompanying notes to the condensed consolidated financial statements are an integral part of these condensed consolidated financial statements.

# Spin Master Corp.

## Condensed consolidated interim statements of financial position

As at June 30, 2015 and December 31, 2014

(Unaudited, in thousands of United States dollars)

	Note	June 30, 2015	December 31, 2014
		\$	\$
<b>Assets</b>			
Current			
Cash		22,920	101,292
Trade and other receivables	7	99,255	87,515
Inventories	8	52,906	38,350
Prepaid expenses		12,312	7,729
Deferred offering costs		1,920	-
Loans to related parties		686	405
		<b>189,999</b>	<b>235,291</b>
Non-current			
Advances on royalties		1,300	703
Property, plant and equipment		11,565	11,244
Intangible assets		39,018	37,249
Goodwill		3,452	3,847
Deferred tax assets		22,841	24,896
Other long-term assets		35,060	37,555
		<b>113,236</b>	<b>115,494</b>
		<b>303,235</b>	<b>350,785</b>
<b>Liabilities</b>			
Current			
Trade payables and other liabilities	9	91,381	130,718
Advance from related parties		64	25
Borrowings	10	2,879	-
Provisions	11	8,023	11,195
Income tax payable		5,494	15,091
Preferred shares	12	240,655	257,776
		<b>348,496</b>	<b>414,805</b>
Non-current			
Borrowings	10	637	839
Other liabilities		225	340
Deferred tax liabilities		1,749	1,026
		<b>351,107</b>	<b>417,010</b>
Commitments and contingencies	11 & 14		
<b>Shareholders' equity</b>			
Issued capital	12	1	1
Accumulated deficit		(111,091)	(118,782)
Contributed surplus		1,647	1,647
Cumulative translation account		36,375	26,413
<b>Equity attributable to owners of the Company</b>		<b>(73,068)</b>	<b>(90,721)</b>
Non-controlling interests		25,196	24,496
<b>Total shareholders' equity</b>	14	<b>(47,872)</b>	<b>(66,225)</b>
		<b>303,235</b>	<b>350,785</b>

The accompanying notes to the condensed consolidated financial statements are an integral part of these condensed consolidated financial statements.

# Spin Master Corp.

## Condensed consolidated interim statements of changes in equity

Six month periods ended June 30, 2015 and 2014

(Unaudited, in thousands of United States dollars)

	Issued capital	Accumulated deficit	Contributed surplus	Cumulative translation account	Non controlling Interest	Total
	\$	\$	\$	\$		\$
<b>Balance at December 31, 2013</b>	1	(170,678)	1,647	9,604	14,677	(144,749)
Net income	-	1,140	-	-	223	1,363
Other comprehensive income (loss)	-	-	-	470	(46)	424
Total comprehensive income	-	1,140	-	470	177	1,787
<b>Balance at June 30, 2014</b>	<b>1</b>	<b>(169,538)</b>	<b>1,647</b>	<b>10,074</b>	<b>14,854</b>	<b>(142,962)</b>
<b>Balance at December 31, 2014</b>	1	(118,782)	1,647	26,413	24,496	(66,225)
Net income	-	7,691	-	-	1,551	9,242
Other comprehensive income (loss)	-	-	-	9,962	(851)	9,111
Total comprehensive income	-	7,691	-	9,962	700	18,353
<b>Balance at June 30, 2015</b>	<b>1</b>	<b>(111,091)</b>	<b>1,647</b>	<b>36,375</b>	<b>25,196</b>	<b>(47,872)</b>

The accompanying notes to the condensed consolidated financial statements are an integral part of this condensed consolidated financial statement.

# Spin Master Corp.

## Condensed consolidated interim statements of cash flows

Six month periods ended June 30, 2015 and 2014

(Unaudited, in thousands of United States dollars)

	Note	Six months ended June 30, 2015	2014
		\$	\$
<b>Operating activities</b>			
Net income		9,242	1,363
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Income tax expense	6	3,308	539
Interest expense		51	929
Depreciation and amortization of non-current assets		11,816	7,303
Amortization of financing charges		198	-
Change in working capital, net	13	(76,869)	(28,002)
Income taxes paid		(10,895)	(6,360)
Interest paid		(47)	(926)
		<b>(63,196)</b>	<b>(25,154)</b>
<b>Investing activities</b>			
Acquisition of property, plant and equipment		(3,414)	(2,378)
Acquisition of intangible assets		(12,682)	(10,736)
		<b>(16,096)</b>	<b>(13,114)</b>
<b>Financing activities</b>			
Proceeds from borrowings	10	22,677	28,062
Repayment of borrowings	10	(20,000)	-
Advances on loans to related parties		(281)	(1,293)
Advances on loans from related parties		38	-
Repayment of loans from related parties		-	(3,323)
		<b>2,434</b>	<b>23,446</b>
Change in cash		<b>(76,858)</b>	<b>(14,822)</b>
Impact of foreign exchange translation on cash		<b>(1,514)</b>	<b>233</b>
Cash, beginning of period		<b>101,292</b>	<b>26,456</b>
<b>Cash, end of period</b>		<b>22,920</b>	<b>11,867</b>

The accompanying notes to the condensed consolidated financial statements are an integral part of this condensed consolidated financial statement.

# Spin Master Corp.

## Notes to the condensed consolidated interim financial statements

### For the periods ended June 30, 2015 and June 30, 2014

(Unaudited - in thousands of United States dollars, except share and per share amounts)

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#### 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. The Company is the sole owner of Spin Master Ltd., which was incorporated on May 9, 1994, under the laws of the Province of Ontario, Canada. The Company, through Spin Master Ltd. and its subsidiaries, is engaged in the design, marketing and sale of toys. The Company's principal place of business is 450 Front Street West, Toronto, Canada, M5V 1B6.

The Company has three reportable operating segments: North America, Europe and Rest of World (see Note 17). The North American segment is comprised of the United States and Canada. The European segment is comprised of the United Kingdom, France, Italy, the Benelux, Germany, Austria, and Switzerland. The Rest of World segment is primarily comprised of Hong Kong, China, and Mexico, as well as all other areas of the world serviced by the Company's distribution network.

#### 2. Significant accounting policies

##### *Statement of compliance*

These unaudited condensed consolidated interim financial statements and accompanying notes for the periods ended June 30, 2015 and June 30, 2014 ("interim financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting. These unaudited interim financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2014. These unaudited interim financial statements have been prepared using the same accounting policies that were described in Note 2 and 3 to the December 31, 2014 annual consolidated financial statements.

These unaudited interim financial statements were approved and authorized for issuance by the Board of Directors on August 10<sup>th</sup>, 2015.

All financial information is presented in thousands of United States dollars, except as otherwise indicated.

#### 3. Revenue

The Company earns revenue from the following primary sources:

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

	<b>Three months ended June 30, 2015</b>	Three months ended June 30, 2014	<b>Six months ended June 30, 2015</b>	Six months ended June 30, 2014
	\$	\$	\$	\$
Revenue from the sale of goods	<b>124,689</b>	105,977	<b>227,576</b>	182,198
Other revenue	<b>3,013</b>	568	<b>6,593</b>	2,043
	<b>127,702</b>	106,545	<b>234,169</b>	184,241

# Spin Master Corp.

## Notes to the condensed consolidated interim financial statements

For the periods ended June 30, 2015 and June 30, 2014

(Unaudited - in thousands of United States dollars, except share and per share amounts)

### 4. Finance costs

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
	\$	\$	\$	\$
Interest on bank overdrafts and loans (other than those from related parties)	96	178	101	305
Interest on loans from related parties	20	314	24	625
Other finance costs	109	179	370	401
	<b>225</b>	<b>671</b>	<b>495</b>	<b>1,331</b>

### 5. Net income before income tax expense

Included within expenses are the following research and development costs and employee benefits expense.

#### *Research and development costs*

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
	\$	\$	\$	\$
Research and development costs	<b>3,422</b>	<b>2,592</b>	<b>6,653</b>	<b>4,683</b>

#### *Employee benefits expense*

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
	\$	\$	\$	\$
Salaries, wages, and bonuses	19,441	15,525	35,616	29,309
Termination benefits	560	483	921	484
Other employee benefits	1,677	2,052	5,022	4,782
	<b>21,678</b>	<b>18,060</b>	<b>41,559</b>	<b>34,575</b>



# Spin Master Corp.

## Notes to the condensed consolidated interim financial statements

For the periods ended June 30, 2015 and June 30, 2014

(Unaudited - in thousands of United States dollars, except share and per share amounts)

### 6. Income tax expense

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
	\$	\$	\$	\$
Current tax expense	1,747	872	2,455	175
Deferred tax expense	853	106	853	364
Total income tax expense	2,600	978	3,308	539

### 7. Trade and other receivables

	June 30, 2015	December 31, 2014
	\$	\$
Trade receivables	120,860	120,257
Sales allowances	(27,462)	(37,857)
Allowances for doubtful accounts	(813)	(914)
	92,585	81,486
Other receivables	6,670	6,029
	99,255	87,515

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

### 8. Inventories

	June 30, 2015	December 31, 2014
	\$	\$
Raw materials	7,611	2,075
Finished goods	45,295	36,275
	52,906	38,350

The cost of inventories recognised as an expense for the three and six month periods ended June 30, 2015 in respect of continuing operations was \$51,320 and \$92,721 respectively (June 30, 2014 - \$46,438 and \$79,724 respectively).

### 9. Trade payables and other liabilities

	June 30, 2015	December 31, 2014
	\$	\$
Trade payables	54,376	61,505
Other accrued liabilities	37,005	69,213
	91,381	130,718

# Spin Master Corp.

## Notes to the condensed consolidated interim financial statements

For the periods ended June 30, 2015 and June 30, 2014

(Unaudited - in thousands of United States dollars, except share and per share amounts)

### 10. Borrowings

	June 30, 2015	December 31, 2014
	\$	\$
Unsecured - at amortized cost		
Loans from:		
Other entities (i)	637	839
	<b>637</b>	<b>839</b>
Secured - at amortized cost		
Bank facilities (ii) and (iii)	2,879	-
	<b>3,516</b>	<b>839</b>
Current	2,879	303
Non-current	637	536
	<b>3,516</b>	<b>839</b>

(i) Fixed rate loans with Region Nord-Pas de Calais, Cap Calais and OSEO related to Meccano operations in France, with remaining maturity periods not exceeding 3 years (December 31, 2014 - 3 years). The weighted average effective interest rate on the loans is 1.3% per annum (December 31, 2014 - 1.3% per annum).

(ii) Variable rate secured facility with maximum borrowings of \$4,010 to finance television production costs through one of the Company's production entities. The interest rate on amounts drawn under the facility bear interest at a variable rate referenced to the lending institution's Canadian dollar prime rate. Amounts outstanding are due prior to May 31, 2016.

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 June 30, 2015 the Company had utilized \$2,879 (December 31, 2014 - \$nil) of the facility.

(iii) On February 26, 2015, the Company entered into a 5-year Senior Secured Facility with maximum borrowings up to \$280,000. The Facility is comprised of an \$80,000 Senior Secured Revolving Credit Facility and a \$200,000 Senior Secured Non-Revolver Term Loan. Advances under the Revolving Credit Facility may be used for general corporate purposes including refinancing existing Indebtedness, funding working capital requirements, Permitted Acquisitions and Permitted Distributions. Advances under the Term Credit Facility may be used for financing Permitted Acquisitions.

Available borrowing options under both the Revolving and Term Loan Facility are:

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

# Spin Master Corp.

## Notes to the condensed consolidated interim financial statements

### For the periods ended June 30, 2015 and June 30, 2014

(Unaudited - in thousands of United States dollars, except share and per share amounts)

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#### 10. Borrowings and loans (continued)

The obligation under the Senior Credit Facility are 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 calculated on a quarterly basis, of 3.00 to 1.00 or less, provided that, in the event the Borrowers used proceeds of a Borrowing under the Term Credit Facility to complete a single Permitted Acquisition with aggregate consideration greater than \$65,000 during any two consecutive Fiscal Quarters falling within the twelve month reporting period immediately following such Permitted Acquisition, the Borrowers must only maintain the Total Leverage Ratio 3.50 to 1.00 or less; and
- Fixed Charge Coverage Ratio, calculated on a quarterly basis, at 1.10:1.00 or greater.

As at June 30, 2015, the Company was in compliance with the Total Leverage and Fixed Charge Coverage Ratio covenants.

As at June 30, 2015, the Company had utilized \$7,770 (December 31, 2014 - \$2,705) of its revolving loan facility, including outstanding letters of credit of \$7,770 (December 31, 2014 - \$2,705) issued under the facility.

#### 11. Provisions

##### *Contingencies*

In the ordinary course of business, the Company is subject to on-going audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, periodically, matters are challenged by the tax authorities. During 2013, as a part of an audit of the Company's Canadian tax filings, the Canada Revenue Agency ("CRA") disputed the measurement of certain transactions and arrangements between the Company and its subsidiaries. At this time the CRA has not issued notices of reassessment for any taxation years related to this matter. Management believes that it is more likely than not that the Company will be successful in defending its position. However, if the Company is not successful in defending its position management's best estimate of the range of amounts payable are between \$4,300 and \$28,500. The amount and timing of any such payment is uncertain and will vary depending on the position taken by the tax authorities with respect to the tax treatment of the transactions and the applicability of penalties and the result of any litigation pursued by the Company.

Additionally, 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.

# Spin Master Corp.

## Notes to the condensed consolidated interim financial statements

For the periods ended June 30, 2015 and June 30, 2014

(Unaudited - in thousands of United States dollars, except share and per share amounts)

### 12. Issued capital

#### (a) Authorized

Unlimited number of Class A common shares;

Unlimited number of Class B common shares;

Unlimited number of Class A1 common shares series I and series II;

Unlimited number of Class A1 and A2 and Class X1 and X2 preference shares, non-voting, with a non-cumulative dividend, redeemable and retractable by the holder;

Unlimited number of Class X preference shares, non-voting, with a non-cumulative dividend not to exceed 5% of the redemption amount, redeemable and retractable by the holder; and

Unlimited number of Class Y preference shares, non-voting, with a non-cumulative dividend not to exceed 0.5% of the redemption amount, redeemable and retractable by the holder;

#### (b) Issued and outstanding

	June 30, 2015	December 31, 2014
	\$	\$
Class A1 common shares	1	1
Class A1 and A2 preference shares	200,685	214,962
Class X1 and X2 preference shares	4,909	5,259
Class Y preference shares	35,061	37,555
	<b>240,655</b>	<b>257,776</b>

  

	June 30, 2015	December 31, 2014
	#	#
Class A1 common shares	100	100
Class A1 and A2 preference shares	249,377,454	249,377,454
Class X1 and X2 preference shares	6,100,000	6,100,000
Class Y preference shares	43,568,000	43,568,000

Subsequent to June 30, 2015, Class A1 common shares were exchanged into multiple voting shares for the principal shareholders, subordinate voting shares for phantom equity plan and restricted stock units for employee grants as described in Note 18.

### 13. Earnings per share

In accordance with IAS 33 – *Earnings per share*, basic and diluted earnings per share amounts are calculated by dividing the net income attributable to common shareholders of the Company by the weighted average number of shares issued during the period after giving effect, on a retrospective basis, to share capital changes due to a reorganization as at June 30, 2015, that occurred as part of the initial public offering subsequent to June 30, 2015 as described in Note 18.

# Spin Master Corp.

Notes to the condensed consolidated interim financial statements

For the periods ended June 30, 2015 and June 30, 2014

(Unaudited - in thousands of United States dollars, except share and per share amounts)

## 14. Change in working capital, net

	Six months ended June 30, 2015	Six months ended June 30, 2014
	\$	\$
(Increase) decrease in:		
Trade and other receivables	(11,740)	1,483
Inventories	(14,556)	(10,348)
Deferred offering costs	(1,920)	-
Prepaid expenses	(4,583)	(2,324)
Advances on royalties	(597)	692
Decrease in:		
Trade payables and other liabilities	(39,337)	(10,072)
Provisions	(3,172)	(8,451)
Foreign currency translation	(964)	1,016
<b>Net change in working capital</b>	<b>(76,869)</b>	<b>(28,002)</b>

## 15. Commitments for expenditures

As at June 30, 2015, the Company had minimum guaranteed license payments of approximately \$30,983 (December 31, 2014 - \$7,250).

On June 5, 2015, Spin Master's wholly owned subsidiary, Spin Master US Holdings, Inc. ("the Purchaser"), agreed to acquire Cardinal Industries, Inc. ("Cardinal") which is a privately-held U.S. company headquartered in Long Island City, New York pursuant to a share purchase agreement. Cardinal is a toy company specializing in producing and selling games and puzzles. The business combination will be consummated through the acquisition of all of the issued and outstanding shares of Cardinal and is expected to close on October 1, 2015. The purchase price will be satisfied by payment of \$50 million in cash on closing, less an indemnity escrow of \$1.25 million to be held for one-year after closing, with estimated contingent consideration of up to \$19.5 million payable over five years based on Cardinal's earnings before income tax, depreciation and amortization ("EBITDA"). The Company has agreed to guarantee the obligations of the Purchaser should it be unable to fulfill its obligations. The Cardinal acquisition will be financed through the Company's existing Credit Facility.

# Spin Master Corp.

## Notes to the condensed consolidated interim financial statements

For the periods ended June 30, 2015 and June 30, 2014

(Unaudited - in thousands of United States dollars, except share and per share amounts)

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### 16. Financial instruments and risk management

#### *Fair value measurements*

With the exception of foreign exchange forward contracts, the Company does not currently record any financial assets or liabilities at fair value in the financial statements. The estimated fair values of the Company's financial instruments are summarized as follows:

	June 30, 2015	December 31, 2014
	\$	\$
Financial assets		
Cash	22,920	101,292
Trade and other receivables	99,255	87,515
Loans to related parties	686	405
Financial liabilities		
Trade payables and other liabilities	91,381	130,718
Borrowings	3,516	839
Preferred shares	240,655	257,776
Other long-term liabilities	225	340

The fair value of the Company's financial assets approximate their carrying values.

### 17. Segment disclosures

#### *Segment information*

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

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

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

# Spin Master Corp.

## Notes to the condensed consolidated interim financial statements

### For the periods ended June 30, 2015 and June 30, 2014

(Unaudited - in thousands of United States dollars, except share and per share amounts)

#### 17. Segment disclosures (continued)

##### *Segment revenues and results*

The following is an analysis of the Company's revenue and results from continuing operations by reportable segment.

	<b>Three months ended June 30, 2015</b>	Three months ended June 30, 2014	<b>Six months ended June 30, 2015</b>	Six months ended June 30, 2014
	\$	\$	\$	\$
<b>Revenues by Segment</b>				
North America	<b>93,978</b>	86,533	<b>167,447</b>	150,538
Europe	<b>24,340</b>	15,847	<b>53,425</b>	28,464
Rest of World	<b>20,768</b>	16,446	<b>34,828</b>	26,352
Gross product sales	<b>139,086</b>	118,826	<b>255,700</b>	205,354
Other revenues and sales allowances	<b>(11,384)</b>	(12,281)	<b>(21,531)</b>	(21,113)
Net sales	<b>127,702</b>	106,545	<b>234,169</b>	184,241
<b>Segment Income</b>				
North America	<b>864</b>	(388)	<b>620</b>	(2,573)
Europe	<b>3,994</b>	39	<b>5,942</b>	(459)
Rest of World	<b>7,059</b>	5,440	<b>10,131</b>	8,301
Total segment income	<b>11,917</b>	5,091	<b>16,693</b>	5,269
Corporate and other	<b>(1,743)</b>	(2,043)	<b>(4,143)</b>	(3,367)
Net income before income taxes	<b>10,174</b>	3,048	<b>12,550</b>	1,902

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the six month period ended June 30, 2015 (June 30, 2014 - \$Nil). The Company does not include sales adjustments such as trade discounts and other allowances in the calculation of segment revenues ("referred to as gross product sales").

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 2 of the December 31, 2014 consolidated financial statements. Segment income represents the income before tax earned by each segment without allocation of other income and expenses, foreign exchange loss (gain), and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

##### *Segment assets*

	<b>June 30, 2015</b>	December 31, 2014
	\$	\$
North America	<b>171,372</b>	210,567
Europe	<b>49,881</b>	57,894
Rest of World	<b>24,111</b>	17,913
Total segment assets	<b>245,364</b>	286,374
Corporate and other	<b>57,871</b>	64,411
Consolidated total assets	<b>303,235</b>	350,785

# Spin Master Corp.

## Notes to the condensed consolidated interim financial statements

For the periods ended June 30, 2015 and June 30, 2014

(Unaudited - in thousands of United States dollars, except share and per share amounts)

### 17. Segment disclosures (continued)

#### *Segment assets (continued)*

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

	June 30, 2015	December 31, 2014
	\$	\$
<b>Non-current assets</b>		
North America	49,117	46,910
Europe	2,484	3,049
Rest of World	1,993	1,124
Total segment assets	53,594	51,083
Corporate and other	59,642	64,411
Consolidated non-current assets	113,236	115,494

#### *Segment liabilities*

	June 30, 2015	December 31, 2014
	\$	\$
North America	84,197	130,783
Europe	15,240	20,288
Rest of World	9,660	6,980
Total segment liabilities	109,097	158,051
Corporate and other	242,010	258,959
Consolidated total liabilities	351,107	417,010

Revenues for North American include revenues attributable to Canada of \$7,610 and \$7,553 for Q2 2015 and Q2 2014, respectively.

Non-current assets for North American include non-current assets attributable to Canada of \$77,102 for the six months ending June 30, 2015, and \$67,485 for the year ending December 31, 2014.

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 reportable segments as described in Note 13 of the December 31, 2014 consolidated financial statements. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and
- all liabilities are allocated to reportable segments other than royalties payable included within trade payables and accrued liabilities, deferred tax liabilities and preferred shares. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.



# Spin Master Corp.

## Notes to the condensed consolidated interim financial statements

### For the periods ended June 30, 2015 and June 30, 2014

(Unaudited - in thousands of United States dollars, except share and per share amounts)

#### 17. Segment disclosures (continued)

##### *Segment liabilities (continued)*

##### *Depreciation/Amortization by segment*

	<b>Three months ended June 30, 2015</b>	Three months ended June 30, 2014	<b>Six months ended June 30, 2015</b>	Six months ended June 30, 2014
	\$	\$	\$	\$
North America	6,291	3,291	10,714	6,360
Europe	78	99	690	687
Rest of World	331	208	412	256
Depreciation and amortization	<b>6,700</b>	3,598	<b>11,816</b>	7,303

##### *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:

	<b>Three months ended June 30, 2015</b>	Three months ended June 30, 2014	<b>Six months ended June 30, 2015</b>	Six months ended June 30, 2014
	\$	\$	\$	\$
Activities, games & puzzles and fun furniture	28,259	28,713	56,603	46,017
Remote control and interactive characters	27,965	23,392	45,506	41,433
Boys action and high-tech construction	23,919	42,628	50,729	78,908
Pre-School and girls	58,943	24,093	102,862	38,996
Gross product sales	<b>139,086</b>	118,826	<b>255,700</b>	205,354
Other revenues and sales allowances	<b>(11,384)</b>	(12,281)	<b>(21,531)</b>	(21,113)
Net sales	<b>127,702</b>	106,545	<b>234,169</b>	184,241

##### *Major customers*

Sales to the Company's largest customers accounted for 56% and 66% of consolidated gross sales for the six month periods ended June 30, 2015 and 2014 respectively, as follows:

	<b>Three months ended June 30, 2015</b>	Three months ended June 30, 2014	<b>Six months ended June 30, 2015</b>	Six months ended June 30, 2014
	\$	\$	\$	\$
<b>Revenue</b>				
Wal-Mart	32,570	33,463	58,078	63,672
Toys "R" Us	19,944	22,754	39,869	37,200
Target	28,819	20,847	46,501	33,885

# Spin Master Corp.

Notes to the condensed consolidated interim financial statements

For the periods ended June 30, 2015 and June 30, 2014

(Unaudited - in thousands of United States dollars, except share and per share amounts)

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## 18. Events after the reporting period

On July 30, 2015, the Company closed its initial public offering for the purposes of distributing (the "Offering") an aggregate of 12,225,000 subordinate voting shares (the "Subordinate Voting Shares") at a price of C\$18.00 per Subordinate Voting Share (the "Offering Price") representing total gross proceeds from the Offering of C\$220,050,000.

In connection with the Offering, the Company amalgamated with SML Investments 2008 Inc., and Varadi Bee Corp. The predecessor corporations were all non-active holding corporations indirectly-owned by the Company's shareholders. The Company's shareholders no longer require the predecessor corporations following the closing of the Offering and have decided to simplify the corporate structure (the "Reorganization"). The Company's post-Offering share structure was created on the amalgamation. The authorized share classes of the Company consist of Multiple Voting Shares, Subordinate Voting Shares, and preferred shares issuable in series.

Further, the Company's share based payment awards were modified prior to closing of the initial public offering such that on closing of the initial public offering of the Company these awards entitled the participants to receive a cash payment and shares. The Company satisfied the participants' entitlements in cash and issued an aggregate 4,790,178 Subordinate Voting Shares immediately prior to the closing of the Offering. Dilution from the Subordinate Voting Shares issued pursuant to these awards was borne by the Company's shareholders existing prior to the closing of the Offering.