

Spin Master Corp.

Condensed consolidated interim financial statements (unaudited)

For the three month periods ended March 31, 2017 and 2016

Spin Master Corp.

Condensed consolidated interim financial statements for the three month periods ended March 31, 2017 and 2016

Table of contents

Condensed consolidated interim statements of financial position	1
Condensed consolidated interim statements of operations and comprehensive income	2
Condensed consolidated interim statements of changes in equity	3
Condensed consolidated interim statements of cash flows	4
Notes to the condensed consolidated interim financial statements	5

Spin Master Corp.

Condensed consolidated interim statements of financial position

(Unaudited, in thousands of United States dollars)	Notes	March 31, 2017	December 31, 2016
Assets			
Current assets			
Cash		94,968	99,416
Trade and other receivables	7	201,143	272,904
Inventories	8	78,176	79,924
Prepaid expenses		21,837	21,398
		396,124	473,642
Non-current assets			
Advance on royalties		12,554	11,695
Property, plant and equipment	9	26,602	26,996
Intangible assets	10	137,790	130,390
Goodwill	11	91,820	91,707
Deferred tax assets		18,131	19,002
		286,897	279,790
Total assets		683,021	753,432
Liabilities			
Current liabilities			
Trade payables and other liabilities	12	150,060	206,771
Loans and borrowings	13	143,684	158,107
Deferred revenues		5,988	5,500
Provisions	14	19,965	26,454
Interest payable		18	6
Income tax payable		9,336	12,331
		329,051	409,169
Non-current liabilities			
Loans and borrowings	13	22	38
Provisions	14	9,542	12,025
Other long-term liabilities		115	110
Deferred tax liabilities		6,477	6,411
		16,156	18,584
Total liabilities		345,207	427,753
Shareholders' equity			
Issued capital	15	670,115	670,115
Accumulated deficit		(398,319)	(408,406)
Contributed surplus		24,160	21,436
Cumulative translation account		41,858	42,534
Total shareholders' equity		337,814	325,679
Total liabilities and shareholders' equity		683,021	753,432

Approved by the Board of Directors on May 11, 2017.

The accompanying notes on pages 5 to 19 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of operations and comprehensive income

(Unaudited, in thousands of United States dollars, except share data)	Notes	Three months ended March 31	
		2017	2016
Revenue	3	227,711	161,702
Cost of sales		114,384	76,326
Gross profit		113,327	85,376
Expenses			
Selling, marketing, distribution and product development	5	43,522	33,416
Administrative expenses	5	53,927	40,801
Other expense (income)		770	(3)
Foreign exchange gain		(1,699)	(5,040)
Finance costs	4	2,864	1,760
Income before income tax expense		13,943	14,442
Income tax expense	6	3,856	4,505
Net income		10,087	9,937
Items that may be subsequently reclassified to net income or loss			
Foreign currency loss (gain) on translation of subsidiary accounts		(676)	2,359
Other comprehensive (loss) income		(676)	2,359
Total comprehensive income		9,411	12,296
Comprehensive income attributable to:			
Owners of the Company		9,411	12,296
		9,411	12,296
Net income attributable to:			
Owners of the Company		10,087	9,937
		10,087	9,937
Earnings per share attributable to owners of the Company			
Basic	16	0.10	0.10
Diluted	16	0.10	0.10
Weighted average of common shares outstanding			
Basic	16	101,676,121	99,293,235
Diluted	16	101,789,132	99,293,235

The accompanying notes on pages 5 to 19 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of changes in equity

(Unaudited, in thousands of United States dollars)	Note	Issued capital	Accumulated deficit	Contributed surplus	Cumulative translation account	Total
Balance at January 1, 2016		589,263	(507,921)	31,580	43,397	156,319
Net income		—	9,937	—	—	9,937
Other comprehensive income		—	—	—	2,359	2,359
Total comprehensive income for the period		—	9,937	—	2,359	12,296
Recognition of share-based compensation expense	15	—	—	6,784	—	6,784
Shares released from equity participation	15	9,716	—	(9,716)	—	—
Balance at March 31, 2016		598,979	(497,984)	28,648	45,756	175,399
Balance at January 1, 2017		670,115	(408,406)	21,436	42,534	325,679
Net income		—	10,087	—	—	10,087
Other comprehensive loss		—	—	—	(676)	(676)
Total comprehensive income (loss) for the period		—	10,087	—	(676)	9,411
Recognition of share-based compensation expense	15	—	—	2,724	—	2,724
Balance at March 31, 2017		670,115	(398,319)	24,160	41,858	337,814

The accompanying notes on pages 5 to 19 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of cash flows

For the three months ended March 31

(Unaudited, in thousands of United States dollars)	Notes	2017	2016
Operating activities			
Net income		10,087	9,937
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Income tax expense	6	3,856	4,505
Interest expense	4	1,133	370
Depreciation and amortization of non-current assets	9, 10	9,214	5,371
Amortization of fair value from acquisition		2,355	—
Accretion expense	4	772	646
Amortization of financing costs	4	234	124
Impairment of non-current assets		774	—
Share-based compensation expense	15	2,724	6,784
Changes in non-cash working capital, net	17	3,438	(20,054)
Changes in contingent consideration liabilities		(2,483)	—
Income taxes paid		(6,073)	(3,207)
Interest paid		(1,162)	(315)
Cash provided by operating activities		24,869	4,161
Investing activities			
Acquisition of property, plant and equipment	9	(4,123)	(2,093)
Acquisition of intangible assets	10	(12,310)	(5,763)
Business acquisitions, net of cash acquired		—	(11,989)
Cash used in investing activities		(16,433)	(19,845)
Financing activities			
Proceeds from borrowings	13	10,790	28,000
Repayment of borrowings	13	(25,216)	(1,770)
Cash provided by (used in) financing activities		(14,426)	26,230
Effect of foreign currency exchange rate changes on cash		1,542	(1,320)
Net(decrease) increase in cash during the year		(4,448)	9,226
Cash, beginning of period		99,416	45,713
Cash, end of period		94,968	54,939

The accompanying notes on pages 5 to 19 are an integral part of these condensed consolidated interim financial statements.

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 21). 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. Summary of Significant accounting policies

(A) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” (“IAS 34”) as issued by the International Financial Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the IASB, have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies

These interim consolidated financial statements and accompanying notes were approved and authorized for issuance by the Board of Directors on May 11, 2017.

(B) Basis of preparation

These condensed consolidated interim financial statements include the accounts of Spin Master Corp. and its subsidiaries. These condensed consolidated interim financial statements should be read in conjunction with the Company’s annual audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2016.

(C) Functional and presentation currency

These condensed consolidated interim financial statements are presented in United States dollars, which is the Company’s presentation currency; however, the functional currency of the Company is the Canadian dollar. The functional currency of the operating subsidiaries is typically the economic currency in the associated jurisdiction. At March 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. All financial information presented in United States dollars has been rounded to the nearest thousand, except per share amounts and where otherwise indicated.

(D) Application of new and revised IFRSs

The Company adopted the amendments to IAS 7, “Statement of Cash Flows”, effective January 1, 2017, with no significant impact on the Company’s unaudited interim period condensed consolidated financial statements.

In January 2016, the IASB issued an amendment to IAS 12 “Income Taxes”. The IASB has concluded that the diversity in practice around the recognition of a deferred tax asset that is related to a debt instrument measured at fair value is mainly attributable to uncertainty about the application of some of the principals in IAS12. Therefore the amendments consist of some clarifying paragraphs and an illustrating example.

The amendment is effective for annual periods beginning on or after January 1, 2017, and there is no impact to the Company’s consolidated financial statements.

Spin Master Corp.

Condensed consolidated interim financial statements for the three month periods ended March 31, 2017 and 2016

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”)

Period ended March 31	Three months ended	
	2017	2016
Revenue from the sale of goods	207,200	155,672
Other revenue	20,511	6,030
Total revenue	227,711	161,702

Sales of toys and other children’s products are seasonal. The majority of Spin Master’s sales occur in the third and fourth quarters of the calendar year. Generally, the first and second quarters are the periods with the lowest shipments and revenues in the toy industry and therefore are the least profitable quarters for the Company.

4. Finance costs

Period ended March 31	Three months ended	
	2017	2016
Interest on bank loans	1,133	370
Bank fees	682	618
Accretion expense	772	646
Amortization of financing costs	234	124
Other	43	2
Total finance costs	2,864	1,760

5. Costs included within expenses

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

Research and development costs

Period ended March 31	Three months ended	
	2017	2016
Research and development costs	6,388	3,524
Total research and development expenses	6,388	3,524

Depreciation expense

Period ended March 31	Three months ended	
	2017	2016
Depreciation and amortization included in cost of sales	6,567	4,482
Depreciation and amortization included in administrative expenses	2,647	889
Total depreciation expenses	9,214	5,371

Spin Master Corp.

Condensed consolidated interim financial statements for the three month periods ended March 31, 2017 and 2016

5. Costs included within expenses (continued)

Employee benefits expense

Period ended March 31	Three months ended	
	2017	2016
Salaries, wages, and bonuses	1,005	571
Other employee benefits	198	58
Total employee benefits expenses in cost of sales	1,203	629
Salaries, wages, and bonuses	28,589	18,161
Share-based payments	2,724	6,783
Termination benefits	752	656
Other employee benefits	4,260	3,001
Total employee benefits expenses in administrative expenses	36,325	28,601
Total employee benefits expenses	37,528	29,230

Selling, marketing, distribution and product development

Period ended March 31	Three months ended	
	2017	2016
Selling	14,906	10,386
Marketing expenses	11,837	14,133
Distribution	10,391	5,373
Product development	6,388	3,524
Total selling, marketing, distribution and product development	43,522	33,416

Administrative expenses

Period ended March 31	Three months ended	
	2017	2016
Staff costs	36,325	28,601
Technology	1,886	1,074
Professional services	4,179	3,365
Property and operations	6,639	4,504
Depreciation of property, plant and equipment (excluding Tooling)	2,647	889
Other	2,251	2,368
Total administrative expenses	53,927	40,801

6. Income taxes

Income tax recognized in profit or loss

Period ended March 31	Three months ended	
	2017	2016
Current tax expense	3,415	3,733
Deferred tax expense	441	772
Total income tax expense	3,856	4,505

Spin Master Corp.

Condensed consolidated interim financial statements for the three month periods ended March 31, 2017 and 2016

7. Trade and other receivables

As at	March 31, 2017	December 31, 2016
Trade receivables	230,948	307,051
Provisions for sales allowances	(71,851)	(79,261)
Allowance for doubtful accounts	(2,566)	(2,684)
	156,531	225,106
Other receivables	44,612	47,798
Total net trade and other receivables	201,143	272,904

Trade receivables disclosed above include \$61,275 (December 31, 2016 - \$44,352) 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

As at	March 31, 2017	December 31, 2016
Raw materials	1,366	2,408
Finished goods	76,810	77,516
Total inventories	78,176	79,924

The cost of inventories recognized as an expense in cost of sales for the three month periods ended March 31, 2017 was \$95,423 (March 31, 2016 - \$64,633).

Spin Master Corp.

Condensed consolidated interim financial statements for the three month periods ended March 31, 2017 and 2016

9. Property, plant and equipment

	Moulds, dies and tools	Equipment	Property	Computer hardware	Total
Cost					
Balance at December 31, 2015	80,161	6,789	6,420	7,893	101,263
Additions	19,574	2,470	1,517	475	24,036
Asset retirements	(1,317)	(2)	(27)	(19)	(1,365)
Asset Impairments	(854)	(343)	(230)	(150)	(1,577)
Assets recognized upon acquisition	1,205	6,548	1,930	244	9,927
Foreign currency translation	(2,885)	(61)	(157)	(28)	(3,131)
Total at December 31, 2016	95,884	15,401	9,453	8,415	129,153
Balance at December 31, 2016	95,884	15,401	9,453	8,415	129,153
Additions	3,328	374	198	223	4,123
Asset retirements	(2,132)	—	(7)	—	(2,139)
Asset Impairments	(389)	—	—	—	(389)
Foreign currency translation	464	71	93	51	679
Total at March 31, 2017	97,155	15,846	9,737	8,689	131,427
Accumulated depreciation					
Balance at December 31, 2015	(67,771)	(5,718)	(4,938)	(6,740)	(85,167)
Depreciation	(11,417)	(1,644)	(299)	(446)	(13,806)
Asset retirements	1,312	2	22	19	1,355
Asset Impairments	616	338	209	149	1,312
Assets recognized upon acquisition	(80)	(4,124)	(1,359)	(52)	(5,615)
Foreign currency translation	321	(82)	(45)	(430)	(236)
Total at December 31, 2016	(77,019)	(11,228)	(6,410)	(7,500)	(102,157)
Balance at December 31, 2016	(77,019)	(11,228)	(6,410)	(7,500)	(102,157)
Depreciation	(3,609)	(329)	(179)	(151)	(4,268)
Asset retirements	2,132	—	7	—	2,139
Asset Impairments	—	—	—	—	—
Foreign currency translation	(343)	(77)	(56)	(63)	(539)
Total at March 31, 2017	(78,839)	(11,634)	(6,638)	(7,714)	(104,825)
Net carrying amount					
Total at December 31, 2016	18,865	4,173	3,043	915	26,996
Total at March 31, 2017	18,316	4,212	3,099	975	26,602

Spin Master Corp.

Condensed consolidated interim financial statements for the three month periods ended March 31, 2017 and 2016

10. Intangible assets

	Brands - indefinite	Trademarks, licenses & customer lists - definite	Content development	Computer software	Total
Cost					
Balance, December 31, 2015	33,951	13,500	42,722	18,484	108,657
Additions	—	62	15,390	2,090	17,542
Disposals	—	—	—	(288)	(288)
Asset acquisitions via business combinations	44,480	20,747	852	—	66,079
Foreign currency translation	1,542	195	1,979	477	4,193
Total at December 31, 2016	79,973	34,504	60,943	20,763	196,183
Balance, December 31, 2016	79,973	34,504	60,943	20,763	196,183
Additions	—	—	11,680	630	12,310
Asset impairments	—	—	(514)	—	(514)
Foreign currency translation	267	26	359	173	825
Total at March 31, 2017	80,240	34,530	72,468	21,566	208,804
Accumulated Amortization					
Balance, December 31, 2015	—	(402)	(29,688)	(16,197)	(46,287)
Amortization	—	(2,713)	(12,263)	(1,708)	(16,684)
Disposal	—	—	—	288	288
Foreign currency translation	(302)	25	(1,935)	(898)	(3,110)
Total at December 31, 2016	(302)	(3,090)	(43,886)	(18,515)	(65,793)
Balance, December 31, 2016	(302)	(3,090)	(43,886)	(18,515)	(65,793)
Amortization	—	(580)	(3,892)	(474)	(4,946)
Asset impairments	—	—	129	—	129
Foreign currency translation	(1)	(18)	(237)	(148)	(404)
Total at March 31, 2017	(303)	(3,688)	(47,886)	(19,137)	(71,014)
Net carrying amount					
Balance at December 31, 2016	79,671	31,414	17,057	2,248	130,390
Balance at March 31, 2017	79,937	30,842	24,582	2,429	137,790

11. Goodwill

As at	March 31, 2017	December 31, 2016
Balance, beginning of year	91,707	36,130
Additions during the period	—	55,806
Foreign currency translation	113	(229)
Total goodwill	91,820	91,707

There have been no impairment losses recognized with respect to goodwill for the three month periods ended March 31, 2017 (March 31, 2016 - \$nil).

Spin Master Corp.

Condensed consolidated interim financial statements for the three month periods ended March 31, 2017 and 2016

12. Trade payables and other liabilities

As at	March 31, 2017	December 31, 2016
Trade payables	63,300	92,171
Accrued liabilities	86,760	114,600
Total trade payables and other liabilities	150,060	206,771

13. Loans and borrowings

As at	March 31, 2017	December 31, 2016
Unsecured debt (at amortized cost)		
Loans from other entities (i)	153	215
	153	215
Secured debt (at amortized cost)		
Bank facilities (ii) and (iii)	146,461	160,831
	146,614	161,046
Less:		
Financing costs	2,908	2,901
Total loans and borrowings	143,706	158,145
Current	143,684	158,107
Non-current	22	38
Total loans and borrowings	143,706	158,145

- (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 2 years (2016 - 3 years). The weighted average effective interest rate on the loans is 1.03% per annum (2016 - 1.06% per annum).
- (ii) Variable rate secured facility with maximum borrowings of \$2,800 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 March 31, 2017, the Company had \$1,461 outstanding (December 31, 2016 - \$1,640) on the obligation.

On March 6, 2017 the Company entered into a Revolving Credit Facility with a limit of \$40,000 to finance television and film 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. As at March 31, 2017, nil was drawn on the Revolver.

- (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.

Spin Master Corp.

Condensed consolidated interim financial statements for the three month periods ended March 31, 2017 and 2016

13. Loans and borrowings (continued)

Available borrowing options under the Facility include:

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

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

- Total Leverage Ratio, defined as the ratio of (a) Total Debt at such time, to (b) EBITDA for the applicable twelve-month period, is calculated on a quarterly basis, of 3.00 to 1.00 or less, provided that, in the event the Borrower used proceeds of a Borrowing to complete a single Permitted Acquisition with aggregate consideration greater than \$100 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.

Company was in compliance with the Total Leverage and Interest Coverage Ratio covenants as at March 31, 2017 and December 31, 2016.

As at March 31, 2017, the Company had utilized \$145,838 (December 31, 2016 - \$160,912) of its Facility: \$145,000 (December 31, 2016 - \$159,190) drawn in LIBOR Loans and \$838 (December 31, 2016 - \$1,722) drawn in letters of credit.

14. Provisions and contingent liabilities

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.

15. Issued capital

(a) Authorized as at March 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	March 31, 2017	December 31, 2016
Multiple voting shares	406,595	406,595
Subordinate voting shares	263,520	263,520
Total capital issued and outstanding	670,115	670,115

Spin Master Corp.

Condensed consolidated interim financial statements for the three month periods ended March 31, 2017 and 2016

15. Issued capital (continued)

	Number of shares	Number of shares
Multiple voting shares	77,230,812	77,230,812
Subordinate voting shares	24,445,309	24,445,309
Total capital issued and outstanding	101,676,121	101,676,121

Issued and outstanding

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

(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 the past service, and to encourage retention. The terms of the Participation Arrangements differ between participants with vesting participants being entitled to some or all of their shares between six months and six years following the Initial Offering.

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

As at March 31, 2017, 2,473,228 Subordinate voting shares have vested with a fair value of \$71,789 (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 the interests of the employees with those of the Company. The RSUs were settled with Subordinate voting shares that fully vested on the first anniversary of the closing of the Initial Offering. Upon vesting of the RSUs, the Company issued approximately 693,057 Subordinate voting shares. Only employees that were employed on the settlement date received Subordinate voting shares.

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

Spin Master Corp.

Condensed consolidated interim financial statements for the three month periods ended March 31, 2017 and 2016

15. Issued capital (continued)

(c) Compensation expense

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

	Three months ended March 31,	
	2017	2016
Expense arising from equity-settled "Participation Agreement" transactions	2,724	4,159
Expense arising from equity-settled "RSU" transactions	—	2,625
Total share based compensation expense	2,724	6,784

Compensation expense of \$2,724 (2016 - \$6,784) is recorded in administrative expenses within the consolidated statement of operations and comprehensive income. A corresponding entry is booked to contributed surplus.

A summary of the Participation Arrangements and RSU activity since December 31, 2016 is 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 March 31, 2017	4,739,038	65,174	747,521	10,280

The weighted average remaining contractual life for Participation Arrangements outstanding as at March 31, 2017 is 25 months and for the RSUs outstanding as at March 31, 2017 is 4 months.

(d) Share Purchase Options ("Options")

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

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
Balance as at March 31, 2017	552,699	\$28.43

16. Earnings per share

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

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	Weighted average number of shares	Per common share amount (\$)	Weighted average number of shares	Per common share amount (\$)
Basic	101,676,121	0.10	99,293,235	0.10
Diluted	101,789,132	0.10	99,293,235	0.10

Spin Master Corp.

Condensed consolidated interim financial statements for the three month periods ended March 31, 2017 and 2016

16. Earnings per share (continued)

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

17. Change in working capital, net

	Three months ended March 31,	
	2017	2016
(Increase) decrease in:		
Trade and other receivables	72,067	13,373
Inventories	2,173	3,602
Prepaid expenses	(4,216)	(1,296)
Advances on royalties	(846)	1,639
	69,178	17,318
Increase (decrease) in:		
Trade payables and other liabilities	(59,713)	(33,964)
Advances from related parties	—	3
Deferred revenues	488	(1,830)
Provisions	(6,515)	(1,581)
	(65,740)	(37,372)
Total net change in working capital	3,438	(20,054)

18. Commitments for expenditures

As at March 31, 2017, the Company had minimum guarantees to licensors of approximately \$28,431 (December 31, 2016 - \$32,092).

19. Financial instruments and risk management

Fair value measurements

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

As at	March 31, 2017	December 31, 2016
Financial assets		
Cash	94,968	99,416
Trade and other receivables	201,143	272,904
Total	296,111	372,320
Financial liabilities		
Accounts payable and accrued liabilities	150,060	206,771
Loans and borrowings	143,706	158,145
Other long-term liabilities	115	110
Total	293,881	365,026

The fair value of foreign exchange forward contracts represented an asset as at March 31, 2017 of \$754 (December 31, 2016 - liability of \$78). These fair values are categorized within Level 2 of the fair value hierarchy. The fair value of foreign exchange contracts is estimated based on forward exchange rates observable at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

Spin Master Corp.

Condensed consolidated interim financial statements for the three month periods ended March 31, 2017 and 2016

19. Financial instruments and risk management (continued)

Market risk

Foreign currency risk

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

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

As at March 31, 2017, the Company is committed under outstanding foreign exchange contracts, representing total purchase commitments of approximately \$99,358 (December 31, 2016 - \$162,777).

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

As at	March 31, 2017	December 31, 2016
Financial Assets		
United States dollars	106,081	161,090
Canadian dollars	8,276	10,027
Euros	75,628	91,696
Pound	38,609	39,598
Peso	18,578	21,266
Yen	52	—
Australian dollar	1,415	—
Total Assets	248,639	323,677
Financial Liabilities		
United States dollars	243,113	293,838
Canadian dollars	45,809	58,687
Euros	8,154	8,183
Pound	4,031	7,366
Peso	1,952	2,537
Yen	27	—
Australian dollar	451	—
Total Liabilities	303,537	370,611

20. Segment information

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

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

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

Spin Master Corp.

Condensed consolidated interim financial statements for the three month periods ended March 31, 2017 and 2016

20. Segment information (continued)

Segment revenue and results

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

	Three months ended March 31	
	2017	2016
Revenue by segment		
North America	154,578	116,308
Europe	50,060	35,959
Rest of world	24,445	21,523
Gross product sales	229,083	173,790
Other revenue and sales allowances	(1,372)	(12,088)
Total consolidated revenue	227,711	161,702
Segment income		
North America	15,274	13,002
Europe	1,150	2,309
Rest of world	173	433
Total segment income	16,597	15,744
Corporate and other	(2,654)	(1,302)
Net income before taxes	13,943	14,442

Revenues for North America include revenues attributable to Canada of \$32,426 and \$10,340, for the three month periods ended March 31 2017 and 2016, respectively.

Segment revenue reported 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 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. Segment income represents income before tax earned by each segment without allocation of other income and expenses, foreign exchange loss (gain), and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Segment assets

As at	March 31	December 31
	2017	2016
Assets		
North America	507,534	571,267
Europe	92,697	105,561
Rest of world	40,591	37,596
Total segment assets	640,822	714,424
Corporate and other	42,199	39,008
Total consolidated assets	683,021	753,432

Spin Master Corp.

Condensed consolidated interim financial statements for the three month periods ended March 31, 2017 and 2016

20. Segment information (continued)

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

As at	March 31 2017	December 31 2016
Non-current assets		
North America	145,163	140,880
Europe	11,271	10,519
Rest of world	8,566	6,042
Total segment non-current assets	165,000	157,441
Corporate and other	121,897	122,349
Total consolidated non-current assets	286,897	279,790

Non-current assets for North America include non-current assets attributable to Canada of \$74,907 and \$68,902 for the periods ending March 31, 2017 and December 31, 2016 respectively.

Segment liabilities

As at	March 31 2017	December 31 2016
Liabilities		
North America	135,751	220,317
Europe	18,988	25,116
Rest of world	17,572	15,518
Total segment liabilities	172,311	260,951
Corporate and other	172,896	166,802
Total consolidated liabilities	345,207	427,753

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

- all assets are allocated to reportable segments other than deferred tax assets, other long-term assets and computer software. Goodwill is allocated to cash generating units as described in Note 11. 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.

Depreciation and amortization by segment

	Three months ended March 31	
	2017	2016
Depreciation and amortization by segment		
North America	7,040	4,315
Europe	1,055	517
Rest of world	601	323
Total segment depreciation	8,696	5,155
Corporate and other	518	216
Total consolidated depreciation	9,214	5,371

Spin Master Corp.

Condensed consolidated interim financial statements for the three month periods ended March 31, 2017 and 2016

20. Segment information (continued)

In addition to the depreciation and amortization reported above, impairment losses of \$774 (2016 - \$nil) were recognized in respect of property, plant and equipment and intangible assets. These impairment losses were attributable to the following reportable segments:

	Three months ended March 31	
	2017	2016
Impairment losses recognized for the period		
North America	386	—
Rest of world	388	—
Total impairment losses	774	—

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:

	Three months ended March 31	
	2017	2016
Revenue from product categories		
Activities, games & puzzles, & fun furniture	47,982	49,729
Remote control & interactive characters	46,532	21,606
Boys action & high-tech construction	13,158	22,990
Pre-school & girls	84,676	79,465
Outdoor	36,735	—
Gross product sales	229,083	173,790
Other revenues and sales allowances	(1,372)	(12,088)
Total revenues	227,711	161,702

Major customers

Sales to the Company's largest customers accounted for 48% and 56% of consolidated gross product sales for 2017 and 2016 respectively, as follows:

	Three months ended March 31	
	2017	2016
Revenue		
Wal-Mart	53,090	48,018
Toys "R" Us	30,437	26,831
Target	27,118	22,420
Total	110,645	97,269

21. Events after the reporting period

On April 28, 2017, Spin Master acquired certain assets of Marbles Holdings LLC., a manufacturer of brain-building and high-quality games for the cash consideration of approximately \$6 million. The purchase consideration was funded from existing cash resources. Marbles will be included in the Activities, Games & Puzzles and Fun Furniture business segment.

On April 28, 2017, the Company filed a final short-form base shelf prospectus with the Securities Commissions in each of the provinces of Canada.