

Spin Master Corp.

Condensed consolidated interim financial statements (unaudited)

For the three month periods ended March 31, 2016 and 2015

Spin Master Corp.

Condensed consolidated interim financial statements
for the three month periods ended March 31, 2016 and 2015

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Spin Master Corp.

Condensed consolidated interim statements of operations and comprehensive income for the three month periods ended March 31, 2016 and 2015

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

	Notes	2016	2015
Revenue	3	161,702	106,467
Cost of sales		76,326	49,772
Gross profit		85,376	56,695
Expenses			
Selling, marketing, distribution and product development		33,416	22,583
Administrative expenses		40,801	29,838
Other (income) expenses		(3)	-
Foreign exchange (gain) loss		(5,040)	1,627
Finance costs	4	1,760	269
Income before income tax expense	5	14,442	2,378
Income tax expense	6	4,505	709
Net income		9,937	1,669
Items that may be subsequently reclassified to profit or loss			
Foreign currency translation		2,359	12,274
Other comprehensive income		2,359	12,274
Comprehensive income		12,296	13,943
Comprehensive income attributable to:			
Owners of the Company		12,296	14,696
Non-controlling interests		-	(753)
		12,296	13,943
Net income attributable to:			
Owners of the Company		9,937	1,382
Non-controlling interests		-	287
		9,937	1,669
Earnings per share attributable to owners of the Company			
Basic	16	0.10	0.02
Diluted	16	0.10	0.02
Weighted average of common shares outstanding		99,293,235	85,234,485

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

Spin Master Corp.

Condensed consolidated interim statements of financial position as at March 31, 2016 and December 31, 2015

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

	Notes	2016	2015
Assets			
Current assets			
Cash		54,939	45,713
Trade and other receivables	7	119,798	134,618
Inventories	8	48,313	49,140
Prepaid expenses		20,073	16,330
		243,123	245,801
Non-current assets			
Advances on royalties		350	1,523
Property, plant and equipment	9	15,750	16,096
Intangible assets	10	77,877	62,370
Goodwill	11	42,287	36,130
Deferred tax assets	6	26,850	26,363
		163,114	142,482
		406,237	388,283
Liabilities			
Current liabilities			
Trade payables and other liabilities	12	104,911	134,677
Advance from related parties		43	40
Loans and borrowings	13	33,318	3,436
Deferred revenue		4,935	6,765
Provisions	14	8,534	10,115
Interest payable		3,218	3,026
Income tax payable	6	17,929	17,156
		172,888	175,215
Non-current liabilities			
Loans and borrowings	13	43,475	46,874
Provisions		11,025	8,458
Other long-term liabilities		1,971	225
Deferred tax liabilities	6	1,479	1,192
		57,950	56,749
		230,838	231,964
Shareholders' equity			
Issued capital	15	598,979	589,263
Accumulated deficit		(497,984)	(507,921)
Contributed surplus		28,648	31,580
Cumulative translation account		45,756	43,397
		175,399	156,319
		406,237	388,283

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

Spin Master Corp.

Condensed consolidated interim statements of changes in equity for the three month periods ended March 31, 2016 and 2015

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

	Notes	Issued capital	Accumulated deficit	Contributed surplus	Cumulative translation account	Equity attributable to shareholders	Non controlling Interest	Total
Balance at January 1, 2015		1	(118,782)	1,647	26,413	(90,721)	24,496	(66,225)
Net income		-	1,382	-	-	1,382	287	1,669
Other comprehensive income (loss)		-	-	-	13,314	13,314	(1,040)	12,274
Total comprehensive income for the period		-	1,382	-	13,314	14,696	(753)	13,943
Balance at March 31, 2015		1	(117,400)	1,647	39,727	(76,025)	23,743	(52,282)
Balance at January 1, 2016		589,263	(507,921)	31,580	43,397	156,319	-	156,319
Net income		-	9,937	-	-	9,937	-	9,937
Other comprehensive income		-	-	-	2,359	2,359	-	2,359
Total comprehensive income for the period		-	9,937	-	2,359	12,296	-	12,296
Recognition of share-based payments	15	-	-	6,784	-	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	-	175,399

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

Spin Master Corp.

Condensed consolidated interim statements of cash flows for the three month periods ended March 31, 2016 and 2015

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

	Notes	2016	2015
Operating activities			
Net income		9,937	1,669
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Income tax expense	6	4,505	709
Interest expense		370	9
Depreciation and amortization of non-current assets		5,371	5,116
Accretion expense		646	-
Amortization of financing charges		124	-
Share-based compensation expense	15	6,784	-
Change in non-cash working capital, net	17	(20,054)	(63,093)
Income taxes paid	6	(3,207)	(7,967)
Interest paid		(315)	(5)
		4,161	(63,562)
Investing activities			
Acquisition of property, plant and equipment	9	(2,093)	(1,816)
Acquisition of intangible assets	10	(5,763)	(5,924)
Business acquisitions, net of cash acquired	19	(11,989)	-
		(19,845)	(7,740)
Financing activities			
Proceeds from borrowings	13	28,000	19,840
Repayment of borrowings	13	(1,770)	-
Advances on loans to related parties		-	(257)
		26,230	19,583
Effect of foreign currency exchange rate changes on cash		(1,320)	94
Net increase (decrease) in cash during the period		9,226	(51,625)
Cash, beginning of period		45,713	101,292
Cash, end of period		54,939	49,667

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements

Spin Master Corp.

Notes to the unaudited condensed consolidated interim financial statements for the three month periods ended March 31, 2016 and 2015

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

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 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 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. Significant accounting policies

Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, ‘Interim Financial Reporting’ (“IAS” 34) as issued by the International Accounting Standards Board (“IASB”), and on a basis consistent with the accounting policies disclosed in the Company’s annual audited consolidated financial statements for the year ended December 31, 2015.

These unaudited condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on May 11, 2016.

Basis of preparation

These condensed consolidated interim financial statements include the accounts of Spin Master Corp. and its subsidiaries. The notes presented in these condensed consolidated interim financial statements include in general only significant changes and transactions occurring since the Company’s last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. 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, 2015.

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. All financial information presented in United States dollars has been rounded to the nearest thousands, except per share amounts and where otherwise indicated.

Accounting standards implemented in 2016

In May 2014, the IASB issued amendments to IFRS 11, “Joint Arrangements” (“IFRS 11”) entitled “Accounting for Acquisitions of Interests in Joint Operations”. The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. There was no impact on the Company’s condensed consolidated interim financial statements as a result of the amendments to IFRS 11.

In September 2014, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process (Annual Improvements to IFRS (2012-2014) cycle). Amendments were made to clarify items including changes in method for disposal under IFRS 5, “Non-Current Assets Held for Sale and Discontinued Operations”; ‘Continuing involvement’ for servicing contracts and offsetting disclosures in condensed interim financial statements under IFRS 7 “Financial Instruments”:

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Notes to the unaudited condensed consolidated interim financial statements for the three month periods ended March 31, 2016 and 2015

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

2. Significant accounting policies (continued)

Accounting standards implemented in 2016 (continued)

Disclosures”; Discount rate in a regional market sharing the same currency under IAS 19 “Employee Benefits”; Disclosure of information ‘elsewhere in the interim financial report’ under IAS 34 “Interim Financial Reporting”. There was no impact on the Company’s condensed consolidated interim financial statements as a result of the amendments.

In December 2014, the IASB issued amendments to IAS 1, “Presentation of Financial Statements” (“IAS 1 amendments”) as part of its major initiative to improve presentation and disclosure in financial reports. The IAS 1 amendments relate to materiality; order of the notes; subtotals; accounting policies; and disaggregation, and are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statement. These amendments did not have a material impact on the Company’s condensed consolidated interim financial statements.

Future accounting standards

In May 2014, the IASB issued IFRS 15, “Revenue from Contracts with Customers”. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, multiple-element arrangements and contract modifications). Application of the standard is mandatory and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 is available for early application with mandatory adoption required for fiscal years commencing on or after January 1, 2018 and is to be applied using the retrospective or the modified transition approach. The Company is currently assessing the impact of this standard on its condensed consolidated interim financial statements

In July 2014, the IASB issued the final version of IFRS 9, “Financial Instruments” with a mandatory effective date of January 1, 2018. The new standard brings together the classification and measurements, impairment and hedge accounting phases of the IASB’s project to replace IAS 39 “Financial Instruments: Recognition and Measurement”. In addition to the new requirements for classification and measurement of financial assets, a new general hedge accounting model and other amendments issued in previous versions of IFRS 9, the standard also introduces new impairment requirements that are based on a forward-looking expected credit loss model. The Company intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning January 1, 2018. The Company is currently assessing the impact of this standard on its condensed consolidated interim financial statements.

In January 2016, the IASB issued final version of IFRS 16, “Leases” superseding IAS 17, Leases and IFRIC 4, Determining Whether an Arrangement Contains a Lease. The standard applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The standard removes the distinction between operating and finance leases with assets and liabilities recognized in respect of all leases. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has been adopted. The Company is currently assessing the impact of this standard on its condensed consolidated interim financial statements.

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Notes to the unaudited condensed consolidated interim financial statements for the three month periods ended March 31, 2016 and 2015

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

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")

	Three months ended March 31,	
	2016	2015
Revenue from the sale of goods	155,672	102,887
Other revenue	6,030	3,580
	161,702	106,467

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 quarter is the period of the lowest shipments and revenues in the toy industry and therefore is the least profitable quarter for the Company.

4. Finance costs

	Three months ended March 31,	
	2016	2015
Interest on bank loans	370	4
Interest on loans from related parties	-	5
Bank fees	618	260
Accretion expense	646	-
Other Interest	126	-
	1,760	269

5. Costs included within expenses

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

Research and development costs

	Three months ended March 31,	
	2016	2015
Research and development costs	3,524	3,231

Employee benefits expense

	Three months ended March 31,	
	2016	2015
Salaries, wages, and bonuses	18,161	16,175
Share-based compensation	6,784	-
Termination benefits	656	361
Other employee benefits	3,000	3,345
	28,601	19,881

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Notes to the unaudited condensed consolidated interim financial statements for the three month periods ended March 31, 2016 and 2015

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

6. Income taxes

Income tax recognized in profit or loss

	Three months ended March 31,	
	2016	2015
Current tax expense	3,733	709
Deferred tax expense	772	-
	4,505	709

7. Trade and other receivables

	March 31,	December 31,
	2016	2015
Trade receivables	161,711	190,271
Sales allowances	(53,120)	(66,123)
Allowance for doubtful accounts	(1,388)	(1,245)
	107,203	122,903
Other receivables	12,595	11,715
	119,798	134,618

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

8. Inventories

	March 31,	December 31,
	2016	2015
Raw materials	481	1,774
Finished goods	47,832	47,366
	48,313	49,140

The cost of inventories recognized as an expense in cost of sales for the period ended March 31, 2016 was \$64,633 (March 31, 2015 - \$41,401).

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Notes to the unaudited condensed consolidated interim financial statements for the three month periods ended March 31, 2016 and 2015

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

9. Property, plant and equipment

	March 31,	December 31,
	2016	2015
Carrying amount		
Land	357	352
Building	785	785
Moulds, dies and tools	12,051	12,390
Office equipment	793	775
Leasehold improvements	393	345
Computer hardware	1,103	1,153
Machinery and equipment	268	296
	15,750	16,096

Spin Master Corp.

Notes to the unaudited condensed consolidated interim financial statements for the three month periods ended March 31, 2016 and 2015

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

9. Property, plant and equipment (continued)

	Land	Building	Moulds, dies and tools	Office equipment	Leasehold improvements	Computer hardware	Machinery and equipment	Total
Cost								
Balance, December 31, 2014	365	844	71,208	5,059	5,608	7,920	2,143	93,147
Additions	-	-	901	37	6	872	-	1,816
Asset retirements	-	-	(132)	-	-	(26)	-	(158)
Foreign currency translation	(14)	39	(424)	(313)	(414)	(1,057)	(194)	(2,377)
Balance, March 31, 2015	351	883	71,553	4,783	5,200	7,709	1,949	92,428
Balance, December 31, 2015	352	883	80,161	4,836	5,185	7,893	1,953	101,263
Additions	-	-	1,936	53	78	12	14	2,093
Asset retirements	-	-	(43)	-	-	-	-	(43)
Foreign currency translation	5	2	284	175	209	305	80	1,060
Balance, March 31, 2016	357	885	82,338	5,064	5,472	8,210	2,047	104,373
Accumulated depreciation								
Balance, December 31, 2014	-	(56)	(63,669)	(4,272)	(5,221)	(6,715)	(1,970)	(81,903)
Depreciation	-	-	(1,318)	(87)	(37)	(146)	(17)	(1,605)
Asset retirements	-	-	132	-	-	26	-	158
Foreign currency translation	-	(50)	552	284	360	430	138	1,714
Balance, March 31, 2015	-	(106)	(64,303)	(4,075)	(4,898)	(6,405)	(1,849)	(81,636)
Balance, December 31, 2015	-	(98)	(67,771)	(4,061)	(4,840)	(6,740)	(1,657)	(85,167)
Depreciation	-	-	(2,315)	(46)	(26)	(91)	(12)	(2,490)
Asset retirements	-	-	43	-	-	-	-	43
Foreign currency translation	-	(2)	(244)	(164)	(213)	(276)	(110)	(1,009)
Balance, March 31, 2016	-	(100)	(70,287)	(4,271)	(5,079)	(7,107)	(1,779)	(88,623)

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Notes to the unaudited condensed consolidated interim financial statements for the three month periods ended March 31, 2016 and 2015

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

10. Intangible assets

			March 31, 2016	December 31, 2015	
Carrying amount					
Brands and trademarks			58,100	47,049	
Content development			17,260	13,034	
Computer software			2,517	2,287	
			77,877	62,370	
		Brands and trademarks	Content development	Computer software	Total
		Indefinite	Definite		
Cost					
Balance, December 31, 2014	27,258	-	26,342	20,568	74,168
Additions	-	-	5,401	523	5,924
Foreign currency translation	(2,173)	-	(3,327)	(1,789)	(7,289)
Balance, March 31, 2015	25,085	-	28,416	19,302	72,803
Balance, December 31, 2015	33,951	13,500	42,722	18,483	108,656
Additions	-	62	5,400	301	5,763
Asset acquisitions via business combination	6,790	1,983	-	-	8,773
Foreign currency translation	2,290	96	2,689	1,276	6,351
Other	100	100	660	-	860
Balance, March 31, 2016	43,131	15,741	51,471	20,060	130,403
Accumulated amortization					
Balance, December 31, 2014	-	-	(18,071)	(18,848)	(36,919)
Amortization	-	-	(3,268)	(242)	(3,510)
Foreign currency translation	-	-	981	1,634	2,615
Other	-	-	-	-	-
Balance, March 31, 2015	-	-	(20,358)	(17,456)	(37,814)
Balance, December 31, 2015	-	(402)	(29,688)	(16,196)	(46,286)
Amortization	-	(370)	(2,307)	(204)	(2,881)
Foreign currency translation	-	-	(1,556)	(1,143)	(2,699)
Other	-	-	(660)	-	(660)
Balance, March 31, 2016	-	(772)	(34,211)	(17,543)	(52,526)

Spin Master Corp.

Notes to the unaudited condensed consolidated interim financial statements for the three month periods ended March 31, 2016 and 2015

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

11. Goodwill

	March 31, 2016	December 31, 2015
Balance, beginning of year	36,130	3,847
Additions during the period (Note 19)	6,412	32,564
Foreign currency translation	(255)	(281)
	42,287	36,130

There have been no impairment losses recognized with respect to goodwill for the period ended March 31, 2016 (March 31, 2015 - \$nil).

12. Trade payables and other liabilities

	March 31, 2016	December 31, 2015
Trade payables	44,216	55,656
Accrued liabilities	60,695	79,021
	104,911	134,677

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Notes to the unaudited condensed consolidated interim financial statements for the three month periods ended March 31, 2016 and 2015

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

13. Loans and borrowings

	March 31, 2016	December 31, 2015
Unsecured debt (at amortized cost)		
Loans from other entities (i)	440	489
	440	489
Secured debt (at amortized cost)		
Bank facilities (ii) and (iii)	78,305	51,797
	78,745	52,286
Less financing costs	1,952	1,976
	76,793	50,310
Current	33,318	3,436
Non-current	43,475	46,874
	76,793	50,310

(i) Fixed rate loans with Région Nord-Pas de Calais, Cap Calais and OSEO related to Meccano operations in France, with remaining maturity periods not exceeding 2 years (2015 - 3 years). The weighted average effective interest rate on the loans is 1.08% per annum (2015 - 1.08% per annum).

(ii) Variable rate secured facility with maximum borrowings of \$3,073 to finance television production costs through one of the Company's production entities. The interest rate on amounts drawn under the facility bear interest at a variable rate referenced to the lending institution's Canadian dollar prime rate. Amounts outstanding are due prior to July 2017.

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

As at March 31, 2016, the Company had fully utilized the facility (December 31, 2015 - \$2,797).

(iii) On February 26, 2015, the Company entered into a 5-year Senior Secured Facility with maximum borrowings up to \$276,920. The Facility is comprised of an \$80,000 Senior Secured Revolving Credit Facility and a \$196,920 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.

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Notes to the unaudited condensed consolidated interim financial statements for the three month periods ended March 31, 2016 and 2015

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

13. Loans and borrowings (continued)

The obligation under the Senior Credit 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 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 Borrower 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 March 31, 2016, the Company was in compliance with the Total Leverage and Fixed Charge Coverage Ratio covenants.

As at March 31, 2016, the Company had utilized \$28,900 (December 31, 2015 - \$nil) of its revolving loan facility and has drawn \$900 (December 31, 2015 - \$1,136) in letters of credit issued under the facility.

As at March 31, 2016, the Company had utilized \$48,020 (December 31, 2015 - \$49,000) of its term loan facility.

14. Provisions and contingent liabilities

Contingencies

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 unaudited condensed consolidated interim financial statements for the three month periods ended March 31, 2016 and 2015

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

15. Issued capital

(a) *Authorized as at March 31, 2016*

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

(b) *Issued and outstanding*

	March 31, 2016	December 31, 2015
Multiple voting shares	406,595	406,595
Subordinate voting shares	192,384	182,668
	598,979	589,263
	#	#
Multiple voting shares	79,680,812	79,680,812
Subordinate voting shares	19,612,423	19,612,423
	99,293,235	99,293,235

(c) *Share-based plans*

Participation arrangements

The Company has equity participation arrangements (“Participation Arrangements”) with nine senior employees and one former employee pursuant to which they are entitled to receive a cash payment and shares on the initial public offering (the “Offering”) of the Company. The Participation Arrangements serves 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 their shares between six months and six years following the Offering.

The Company satisfied the participants’ entitlements by making a onetime cash payment to participants and by issuing an aggregate 4,790,178 Subordinate voting shares immediately prior to the closing of the 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 Offering, less the value of the cash settlement. The Company recognizes compensation expense over the vesting period of the Participation Arrangement, which is six years.

As of March 31, 2016, 754,327 Subordinate voting shares have vested with a fair value of \$9,716 (December 31, 2015 - \$nil).

Spin Master Corp.

Notes to the unaudited condensed consolidated interim financial statements for the three month periods ended March 31, 2016 and 2015

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

15. Issued capital (continued)

(c) Share-based plans (continued)

Restricted Share Units (“RSUs”)

In connection with and immediately prior to the closing of the Offering, the Company established an RSU plan for all of its current employees (other than the participants under the “Participation Arrangements” and employees in China).

The RSUs serve to reward past service of the employees and align the interests of the employees with those of the Company. The RSUs will be settled with Subordinate voting shares and will fully vest on the first anniversary of the closing of the Offering. Upon vesting of the RSUs, the Company will issue approximately 763,495 Subordinate voting shares. Only employees that are employed on the settlement date will receive Subordinate voting shares. Each RSU granted reduced the quantity of Multiple voting shares issued to the principal shareholders.

The Company classifies the RSUs as equity instruments as the Company has 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 recognizes compensation expense over the vesting period of the RSU.

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

	Participation Agreement		RSUs	
	Number	Weighted Average Grant Date Fair Value	Number	Weighted Average Grant Date Fair Value
Granted during the year	4,790,178	65,877	763,495	10,500
Vested during the year	-	-	-	-
Forfeited / cancelled during the year	-	-	-	-
Balance at December 31, 2015	4,790,178	65,877	763,495	10,500
Granted during the period	-	-	-	-
Vested during the period	-	-	-	-
Forfeited / cancelled during the period	-	-	-	-
Balance at March 31, 2016	4,790,178	65,877	763,495	10,500

The weighted average remaining contractual life for Participation Arrangements outstanding as at March 31, 2016 is two years and for the RSUs outstanding as at March 31, 2016 is four months.

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15. Issued capital (continued)

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 at December 31, 2015	-	-
Granted during the period	346,148	\$ 22.94
Vested during the period	-	-
Forefeited / cancelled during the period	-	-
Balance at March 31, 2016	346,148	\$ 22.94

(d) Compensation expense

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

	Three months ended March 31,	
	2016	2015
Expense arising from equity-settled "Participation Agreement" transactions	4,159	-
Expense arising from equity-settled "RSU" transactions	2,625	-
	6,784	-

Compensation expense of \$6,784 is recorded in administrative expenses within the consolidated statement of operations. A corresponding entry is booked to contributed surplus.

16. Earnings per share

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

	Three months ended March 31, 2016		Three months ended March 31, 2015	
	Weighted average number of shares	Per common share amount \$	Weighted average number of shares	Per common share amount \$
Basic	99,293,235	0.10	85,234,485	0.02
Diluted	99,293,235	0.10	85,234,485	0.02

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 share issuances are anti-dilutive and are, therefore, not included in the computation of diluted earnings per share.

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17. Change in working capital, net

	Three months ended March 31,	
	2016	2015
(Increase) decrease in		
Trade and other receivables	13,373	9,628
Inventories	3,602	1,849
Prepaid expenses	(1,296)	(1,464)
Advances on royalties	1,639	703
Increase (decrease) in		
Trade payables and other liabilities	(33,964)	(69,016)
Advances from related parties	3	(1)
Deferred revenues	(1,830)	(1,237)
Provisions	(1,581)	(3,093)
Other	-	(462)
	(20,054)	(63,093)

18. Commitments for expenditures

As at March 31, 2016, the Company had minimum guarantees to licensors of approximately \$27,988 (December 31, 2015 - \$34,586).

19. Business combinations

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. Pursuant to the terms set forth in the agreement, the Company acquired 100% of the net assets of EG Games for a total cash consideration of \$5,000, of which \$2,900 was due on closing, less 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 6 years based on 6.5% of Gross Sales up to \$2,100 and paid to the vendor on the 7th anniversary of the Closing date subject to set-off rights.

Including the estimated fair value of the estimated future payments, the total purchase consideration of \$5,111 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 Company is in the process of finalizing the valuation of the assets acquired and liabilities assumed. 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 because they are not material.

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19. Business combinations (continued)

Acquisition of EG Games (continued)

Assets acquired and liabilities recognized at the date of acquisition

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

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
	<u>2,700</u>

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.

Net cash outflow on acquisition

	Total
Consideration paid in cash	3,144
Cash balances acquired	105
	<u>3,039</u>

Spin Master Corp.

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19. Business combinations (continued)

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 included all brand-related patents, trademarks, and inventory for the brands for a total cash consideration of \$8,950, less 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.

Including the estimated fair value of the estimated future royalties, the total purchase consideration of \$11,074 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 Company is in the process of finalizing the valuation of the assets acquired and liabilities assumed. The determination of the final values of the assets acquired 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 because they are not material.

Assets acquired at the date of acquisition

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

Goodwill arising on acquisition

	Total
Consideration transferred, including present value of royalty payments	11,074
<u>Fair value of identifiable net assets acquired</u>	<u>7,362</u>
	<u>3,712</u>

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.

Net cash outflow on acquisition

	Total
Consideration paid in cash	8,950
	<u>8,950</u>

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20. 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, 2016	December 31, 2015
Financial assets		
Cash	54,939	45,713
Trade and other receivables	119,798	134,618
Financial liabilities		
Accounts payables and accrued liabilities	104,911	134,677
Borrowings	76,793	50,310
Other long-term liabilities	1,971	225

The fair value of foreign exchange forward contracts represented an asset as at March 31, 2016 of \$1,360 (December 31, 2015 – liability of \$755). 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.

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, 2016, the Company is committed under outstanding foreign exchange contracts to purchase Canadian dollars in exchange for US dollars, representing total purchase commitments of approximately \$29,819 (December 31, 2015 - \$41,692).

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Notes to the unaudited condensed consolidated interim financial statements for the three month periods ended March 31, 2016 and 2015

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20. Financial instruments and risk management (continued)

Market risk (continued)

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

	March 31, 2016	December 31, 2015
Financial assets		
United States dollars	103,343	115,136
Canadian dollars	20,544	8,306
Euros	27,554	31,026
Pound	13,015	11,597
Peso	10,281	14,266
	174,737	180,331
Financial liabilities		
United States dollars	129,324	162,888
Canadian dollars	43,126	6,945
Euros	9,740	12,260
Pound	3,685	3,430
Peso	1,018	2,715
	186,893	188,238

Spin Master Corp.

Notes to the unaudited condensed consolidated interim financial statements for the three month periods ended March 31, 2016 and 2015

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21. 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.

Segment revenue and results

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

	Three months ended March 31,	
	2016	2015
Revenue by segment		
North America	116,308	73,469
Europe	35,959	29,084
Rest of World	21,523	14,060
Gross product sales	173,790	116,613
Other revenue and sales allowances	(12,088)	(10,146)
Revenue	161,702	106,467
Segment income		
North America	13,002	(244)
Europe	2,309	1,948
Rest of World	433	3,072
Total segment income	15,744	4,776
Corporate and other	(1,302)	(2,398)
Net income before income taxes	14,442	2,378

Revenues for North America include revenues attributable to Canada of \$10,340 and \$5,884, for the period ended March 31, 2016 and 2015, respectively.

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

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21. Segment information (continued)

Segment revenue and results (continued)

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 2 of the December 31, 2015 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

	March 31, 2016	December 31, 2015
North America	236,077	228,999
Europe	70,345	60,304
Rest of World	19,119	20,537
Total segment assets	325,541	309,840
Corporate and other	80,696	78,443
Consolidated total assets	406,237	388,283

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

	March 31, 2016	December 31, 2015
Non-current assets		
North America	60,897	54,939
Europe	19,934	4,490
Rest of World	2,612	4,529
Total segment assets	83,443	63,958
Corporate and other	79,671	78,524
Consolidated non-current assets	163,114	142,482

Non-current assets for North America include non-current assets attributable to Canada of \$59,938 and \$50,744 for the periods ending March 31, 2016 and December 31, 2015, respectively.

Segment liabilities

	March 31, 2016	December 31, 2015
North America	187,047	192,236
Europe	20,578	17,977
Rest of World	7,152	8,391
Total segment liabilities	214,777	218,604
Corporate and other	16,061	13,360
Consolidated total liabilities	230,838	231,964

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21. Segment information (continued)

Segment liabilities (continued)

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. 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,	
	2016	2015
North America	4,315	4,423
Europe	517	612
Rest of World	323	81
Total segment depreciation and amortization	5,155	5,116
Corporate and other	216	-
Consolidated depreciation and amortization	5,371	5,116

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,	
	2016	2015
Activities, games & puzzles, and fun furniture	49,729	28,343
Remote control and interactive characters	21,606	17,541
Boys action and high-tech construction	22,990	26,810
Pre-school and girls	79,465	43,919
Gross product sales	173,790	116,613
Other revenue and sales allowances	(12,088)	(10,146)
Revenue	161,702	106,467

Major customers

Sales to the Company's largest customers accounted for 56% and 54% of consolidated gross product sales for the period ended March 31, 2016 and 2015 respectively, as follows:

	Three months ended March 31,	
	2016	2015
Revenue		
Wal-Mart	48,018	24,995
Toys "R" Us	26,831	19,926
Target	22,420	17,682

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22. Events after the reporting period

On April 21, 2016, the Company agreed to acquire 100% of the shares of the Toca Boca and Sago Mini companies from the Bonnier Group of Sweden. The transaction closed on May 2, 2016 and will be accounted for as a business combination.

Toca Boca, with offices in Stockholm, San Francisco and New York and over 80 employees, is a play studio that makes digital toys for kids aged 3-9. Sago Mini, located in Toronto, creates mobile apps for kids aged 2-5 that focus on the pre-school segment.