MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

For the three months and twelve months ended December 31, 2015

The following Management's Discussion and Analysis ("MD&A") for Spin Master Corp. ("Spin Master" or the "Company") is dated March 30, 2016 and provides information concerning the Company's financial condition and financial performance for the three and the twelve months ended December 31, 2015 ("fourth quarter", "the quarter", "Q4"). This MD&A should be read in conjunction with the Company's audited Consolidated Financial Statements ("financial statements") and accompanying notes as at December 31, 2015 and its Annual Information Form. Additional information relating to the Company can be found on SEDAR at www.sedar.com.

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

BASIS OF PRESENTATION

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

OVERVIEW

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

Spin Master has successfully increased its revenue from $507.5 million in 2013 to $879.4 million in 2015. Over the same period, Gross Product Sales (a non-IFRS measure) have increased from $576.9 million to $982.7 million, a 30.5% compound annual growth rate. The Company's Gross Product Sales have grown at a 12.7% compound annual growth rate over the past 10 years. Additionally, the Company has demonstrated the ability to effectively manage costs and increase margins, generating gross profit of approximately $458.9 million in 2015 (representing 52.2% of revenue) and Adjusted EBITDA (a non-IFRS measure) of approximately $160.4 million, or 18.2% of revenue, in 2015.

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

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

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

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

Selected Financial Information

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

	Fiscal Years Ended, December 31,		
(in $ millions, except percentages)	**2015**	2014	2013
Earnings Results			
Gross Product Sales By Segment			
Activities, Games & Puzzles And Fun Furniture	**231.4**	190.5	140.3
Remote Control And Interactive Characters	**233.3**	268.6	158.1
Boys Action And High Tech Construction	**192.3**	191.8	134.1
Pre School and Girls	**325.7**	161.0	144.4
Gross Product Sales (1)	**982.7**	811.9	576.9
Other revenue	**19.2**	8.8	6.1
Total Gross Sales (1)	**1001.9**	820.7	583.0
Sales Allowances (1)	**122.5**	105.0	75.5
Revenue	**879.4**	715.7	507.5
Cost of goods sold	**420.5**	357.6	262.7
Gross profit	**458.9**	358.1	244.8
Gross Margin	***52.2%***	*50.0%*	*48.2%*
Selling, marketing, distribution and product development	**183.8**	139.5	106.7
Administrative	**195.9**	124.5	108.7
Other expenses (income)	**(13.4)**	0.9	1.5
Foreign exchange loss (gain)	**6.5**	4.9	(1.5)
Finance costs	**6.5**	2.8	3.4
Net income (loss) before income tax expense	**79.6**	85.5	26.0
Income tax expense (recovery)	**32.6**	23.3	6.9
Net income (loss)	**47.1**	62.2	19.1
Net Income Attributable to:			
Owners of the Company	**43.2**	51.9	15.9
Non-Controlling Interests	**3.9**	10.3	3.2
	47.1	62.2	19.1

Selected Financial Information (Continued)

(in $ millions, except percentages)	Fiscal Years Ended, December 31, 2015	2014	2013
Net Earnings from operations	**47.1**	62.2	19.1
Net Earnings from operations attributable to the Owners of the Company	**43.2**	51.9	15.9
Earnings per share from operations attributable to Owners of the Company (in dollars) (3)			
Basic EPS	**$ 0.48**	$ 0.61	$ 0.19
Diluted EPS	**$ 0.48**	$ 0.61	$ 0.19
Other Financial Data			
EBITDA (1)	**109.0**	106.0	48.0
Adjusted EBITDA (1)	**160.4**	111.7	53.1
Adjusted EBITDA Margin	***18.2%***	*15.6%*	*10.5%*
Adjusted Net Income (1)	**98.6**	66.3	22.8
Adjusted Net Income attributable to Owners of the Company	**94.7**	56.0	19.6
Adjusted Earnings Per Share attributable to Owners of the Company			
Adjusted Basic EPS	**$ 1.04**	$ 0.66	$ 0.23
Adjusted Diluted EPS	**$ 1.04**	$ 0.66	$ 0.23
Balance Sheet & Cash Flow Data			
Cash and cash equivalents	**45.7**	101.3	26.5
Total assets	**388.3**	350.8	277.0
Borrowings	**50.3**	0.8	7.8
Preferred shares	**0.0**	257.8	281.0
Loans from related parties	**0.0**	0.0	16.0
Total debt	**50.3**	258.6	304.8
Net Debt (2)	**4.6**	157.3	278.3
Total shareholders' equity	**156.3**	(66.2)	(144.7)
Cash provided by operating activities	**55.6**	124.0	51.6
Cash used in investing activities	**(93.6)**	(26.2)	(14.7)
Cash used in financing activities	**(11.5)**	(23.1)	(28.1)

(1) See "Non-IFRS Financial Measures"
(2) Net debt is total debt less cash and cash equivalents
(3) Amounts per share give effect on a retrospective basis following the Reorganization that occurred prior to the offering of July 30, 2015

Highlights for the three and twelve months ended December 31, 2015:

- For the three months ended December 31, 2015, revenue increased by 8.8% from $237.6 million for the same period in 2014 to $258.4 million in 2015. For the twelve months ended December 31, 2015, revenue increased by 22.9% from $715.6 million for the same period in 2014 to $879.4 million in 2015.
- Gross profit as a percentage of revenue for the three months ended December 31, 2015 was 50.9%, an increase of 1.2% from 49.7% for the same period in 2014. For the twelve months ended December 31, 2015 gross profit as a percentage of revenue was 52.2%, an increase of 2.2% from 50.0% for the same period in 2014.
- Net Income for the three months ended December 31, 2015 was a loss of $13.3 million, compared to net income of $5.7 million for the same period in 2014. For the twelve months ended December 31, 2015, Net Income was $47.1 million, a decrease of 24.3% compared to $62.2 million for the same period in 2014.
- For the three months ended December 31, 2015, Adjusted EBITDA was $13.7 million or 5.3% of revenue, compared to $21.6 million or 9.2% of revenue in 2014. For the twelve months ended December 31, 2015 Adjusted EBITDA was $160.4 million or 18.2% of revenue, compared to $111.7 million or 15.6% of revenue in 2014.
- On July 30, 2015, pursuant to a reorganization transaction (the "Reorganization") completed in connection with the initial public offering ("IPO") of the Company, each of Ronnen Harary, Anton Rabie, and Ben Varadi (collectively, the "Founders") became the beneficial owner of multiple voting shares of the Company ("Multiple Voting Shares") upon exchange of the Founders' prior holdings in the Company and its predecessors. Ronnen Harary indirectly owns 33,266,739 Multiple Voting Shares (representing approximately 41.75% of the issued and outstanding Multiple Voting Shares), Anton Rabie indirectly owns 33,266,739 Multiple Voting Shares (representing approximately 41.75% of the issued and outstanding Multiple Voting Shares) and Ben Varadi indirectly owns 13,147,334 Multiple Voting Shares (representing approximately 16.5% of the issued and outstanding Multiple Voting Shares). Pursuant to the terms of an agreement among the Founders, entities controlled by the Founders, and the Company, the Founders control 100% of the issued and outstanding Multiple Voting Shares.
- On July 30, 2015, the Company completed its IPO of 12,225,000 subordinate voting shares of the Company ("Subordinate Voting Shares") at a price of C$18.00 per Subordinate Voting Share. The IPO raised total gross proceeds of C$220,050,000. The Subordinate Voting Shares were listed on the Toronto Stock Exchange under the symbol "TOY".
- On August 26, 2015, the over-allotment option granted to the underwriters to purchase up to an additional 1,833,750 Subordinate Voting Shares, at a price of C$18.00 per share, was exercised in full, generating additional gross proceeds to Spin Master of C$33,007,500. The net proceeds from the exercise of the over-allotment option were used to repay indebtedness of the Company. The sale of the additional Subordinate Voting Shares brought the aggregate gross IPO proceeds to Spin Master to approximately C$253.1 million.
- On October 2, 2015, the Company announced that it completed the previously-announced acquisition of 100% of Cardinal Industries Inc. ("Cardinal"), one of the oldest privately-held game and puzzle companies in the United States, with 2014 North American revenue in excess of $50 million. For the three months ended December 31, 2015, the Company recorded revenue of $31.0 million related to Cardinal.
- On December 18, 2015, the Company reached a settlement agreement with the Canada Revenue Agency ("CRA") resolving an outstanding transfer pricing matter arising from the CRA's audit of the cost sharing arrangements between Spin Master Ltd. and a foreign affiliate during the 2004 – 2013 taxation years. Under the settlement, the total liability for Canadian federal and Ontario corporate income tax and interest in respect of the agreed transfer pricing adjustments was C$15 million and no transfer pricing penalties were applied in respect of such adjustments.

Subsequent Events:

- On January 27, 2016, the Company announced that it had entered into an agreement to purchase the library of board games owned by Editrice Giochi SRL, one of the oldest privately-held toy game companies in Italy. The sale includes the historic Editrice Giochi brand, which has been in the Italian market for more than 70 years. The strategic acquisition enables Spin Master to expand its award-winning selection of games and licensed products in the Italian market with such well-known games as *Risiko*, Italy's most popular strategic game, and *Scarabeo*, the leading word game in Italy.
- On February 11, 2016, the Company announced that it had acquired the iconic *Etch A Sketch* and *Doodle Sketch* brands from The Ohio Art Company. The acquisition included all brand-related patents, trademarks, tooling and inventory for the brands.

FINANCIAL PERFORMANCE

For the three and twelve months ended December 31, 2015:

Consolidated Results

Revenue for the three months ended December 31, 2015 was $258.4 million, an 8.8% increase compared of $237.6 million for the same period in 2014. For the twelve months ended December 31, 2015 revenue was $879.4 million, a 22.9% increase compared to $715.6 million for the same period in 2014.

Net Income for the three months ended December 31, 2015 was a loss of $13.3 million, compared to net income of $5.7 million for the same period in 2014. For the twelve months ended December 31, 2015, Net Income was $47.1 million, a decrease of 24.3% compared to $62.2 million for the same period in 2014.

The following table provides a summary of Spin Master's consolidated results for the three and twelve months ended December 31, 2015:

	Three Months Ended December 31		Twelve Months Ended December 31	
(in $ millions, except percentages)	**2015**	2014	**2015**	2014
Revenue	**258.4**	237.6	**879.4**	715.7
Cost of sales	**(126.8)**	(119.6)	**(420.5)**	(357.5)
Gross profit	**131.6**	118.0	**458.9**	358.1
Selling, marketing, distribution and product development	**(88.2)**	(64.9)	**(183.8)**	(139.5)
Administrative	**(48.5)**	(37.1)	**(195.9)**	(124.4)
Other income and expenses	**0.1**	(0.9)	**13.4**	(0.9)
Foreign exchange gains/(losses)	**(0.5)**	(5.3)	**(6.5)**	(4.9)
Finance costs	**(4.9)**	(0.5)	**(6.5)**	(2.8)
Net income before income tax (expense) / recovery	**(10.4)**	9.3	**79.6**	85.5
Income tax (expense) / recovery	**(2.8)**	(3.6)	**(32.6)**	(23.3)
Net income	**(13.3)**	5.7	**47.1**	62.2

Revenue

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

(in $ millions, except percentages)	Three Months Ended December 31		Twelve Months Ended December 31	
	2015	2014	**2015**	2014
Activities, Games & Puzzles and Fun Furniture	**100.3**	85.0	**231.4**	190.5
Remote Control and Interactive Characters	**50.0**	97.2	**233.3**	268.6
Boys Action and High-Tech Construction	**48.1**	50.2	**192.3**	191.8
Pre-School and Girls	**89.1**	45.1	**325.7**	161.0
Total Gross Product Sales	**287.5**	277.5	**982.7**	811.9
Other Revenue	**7.9**	4.9	**19.2**	8.8
Total Gross Sales	**295.4**	282.4	**1,001.9**	820.7
Sales Allowances	**37.0**	44.8	**122.5**	105.0
Revenue	**258.4**	237.6	**879.4**	715.7

Gross Product Sales for the three months ended December 31, 2015 compared to the same period in 2014 increased by $10.0 million, or 3.6%, to $287.5 million with an unfavorable impact from changes in currency exchange rates of $10.3 million. Excluding the acquisition of Cardinal, Gross Product Sales for the three months ended December 31, 2015 decreased by $22.7 million, or -8.2%, to $254.9 million compared to the same period in 2014. Gross Product Sales for the fourth quarter were negatively impacted by the timing of shipments as a result of higher shipments in the third quarter due to improvements in operational efficiencies.

For the twelve months ended December 31, 2015 compared to the same period in 2014, Gross Product Sales increased by $170.8 million, or 21.1% to $982.7 million with an unfavorable impact from changes in currency exchange rates of $32.4 million. Excluding the acquisition of Cardinal, Gross Product Sales for the twelve months ended December 31, 2015 compared to the same period in 2014 increased by $138.1 million, or 17.0%, to $950.0 million.

Gross Product Sales in the Activities, Games & Puzzles and Fun Furniture segment increased by $15.3 million or 18.0%, to $100.3 million for the three months ended December 31, 2015 as compared to the same period in 2014, driven by the acquisition of Cardinal. Excluding the acquisition of Cardinal, Gross Product Sales in the Activities, Games & Puzzles and Fun Furniture segment decreased by $17.3 million or -20.4%, to $67.7 million for the three months ended December 31, 2015 as compared to the same period in 2014, due to lower sales in Board Games and *Kinetic Sand*. For the twelve months ended December 31, 2015, Gross Product Sales in the Activities, Games & Puzzles and Fun Furniture segment increased by $40.9 million or 21.5% as compared to the same period in 2014, primarily driven by acquisition of Cardinal, the launch of *Bunchems*, *Text Cool* and *Knit Cool* and increased sales in *Kinetic Sand*, and *Marshmallow* Furniture. Excluding the acquisition of Cardinal, for the twelve months ended December 31, 2015, Gross Product Sales in the Activities, Games & Puzzles and Fun Furniture segment increased by $8.2 million or 4.3% as compared to the same period in 2014.

Gross Product Sales in the Remote Control and Interactive Characters segment decreased by $47.2 million or -51.4% to $50.0 million for the three months ended December 31, 2015 compared to the same period in 2014, primarily due to lower sales of *Zoomer* and the timing of sales of *Air Hogs*. For the twelve months ended December 31, 2015 compared to the same period in 2014, Gross Product Sales in the Remote Control and Interactive Characters segment decreased by $35.3 million or -13.1% to $233.3 million primarily due to lower sales of *Zoomer*.

Gross Product Sales in the Boys Action and High-Tech Construction segment decreased by $2.1 million or -4.2% to $48.1 million for the three months ended December 31, 2015 as compared to the same period in 2014. For the twelve months ended December 31, 2015 compared to the same period in 2014, Gross Product Sales in the Boys Action and High-Tech Construction segment increased by $0.5 million or 0.3% to $192.3 million. Growth in this business segment was primarily driven by the launch of the *Meccanoid* and *Star Wars* licensed products, partially offset by lower sales of *How to Train your Dragon*, *Minecraft* licensed toys and *Ionix Tenkai Knights* products.

Gross Product Sales in the Pre-School and Girls segment increased by $44.0 million or 97.6% to $89.1 million, for the three months ended December 31, 2015. For the twelve months ended December 31, 2015, compared to the same period in 2014, Gross Product Sales in the Pre-School and Girls segment increased by $164.8 million or 102.4% to $325.7 million. Growth in this segment for the three and twelve month period was primarily driven by sales of *Paw Patrol* products, and the launch of *Chubby Puppies* and *Little Charmers*, offset by declines in *Flutterbye Flying Fairy*.

Other Revenue increased by $3.0 million or 61.2% to $7.9 million for the three months ended December 31, 2015 as compared to the same period in 2014, primarily driven by increased royalty income from products marketed by third parties using Spin Master's owned intellectual property. For the twelve months ended December 31, 2015, compared to the same period in 2014, Other Revenue increased by $10.4 million or 118.2%, to $19.2 million, driven by increased television distribution income and higher royalty income from products marketed by third parties using Spin Master's owned intellectual property.

Sales Allowances (a non-IFRS measure), decreased by $7.8 million or -17.2% to $37.0 million for the three months ended December 31, 2015 compared to the same period in 2014, primarily due to product and market mix and timing of promotional spending. For the twelve months ended December 31, 2015, compared to the same period in 2014, Sales Allowances increased by $17.5 million or 16.7% to $122.5 million, driven primarily by higher Gross Product Sales.

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

	Three Months Ended December 30		**Twelve Months Ended December 31**	
(in $ millions, except percentages)	**2015**	2014	**2015**	2014
North America	**201.2**	198.5	**692.2**	588.6
Europe	**59.0**	58.7	**183.8**	135.3
Rest of World	**27.3**	20.3	**106.7**	88.0
Total Gross Product Sales	**287.5**	277.5	**982.7**	811.9

Gross Product Sales for the three months ended December 31, 2015 compared to the same period in 2014 increased by $10.0 million, or 3.6%, to $287.5 million driven by increased sales in North America and the Rest of World. Gross Product Sales for the twelve months ended December 31, 2015 compared to the same period in 2014 increased by $170.9 million, or +21.1%, to $982.7 million, with strong growth in all geographic segments.

For the three months ended December 31, 2015, compared to the same period in 2014, Gross Product Sales in North America increased by $2.7 million or 1.3% to $201.2 million with an unfavourable impact from changes in currency exchange rates of $1.5 million. Excluding the acquisition of Cardinal, Gross Product Sales in North America decreased by $29.8 million or -15.0% for the three months ended December 31, 2015. For the twelve months ended December 31, 2015, compared to the same period in 2014 Gross Product Sales increased by $103.6 million or 17.6% to $692.2 million with an unfavorable impact from changes in currency exchange rates of $3.5 million. Excluding Cardinal, Gross Product Sales in North America increased by $71.2 million or 12.1% for the twelve months ended December 31, 2015, driven primarily by increases in product sales in the United States and in the Pre-school & Girls, and Boys Action & High Tech Construction business segments.

For the three months ended December 31, 2015, compared to the same period in 2014, Gross Product Sales in Europe increased by 0.3 million or 0.6% to $58.7 million with an unfavourable impact from changes in currency exchange rates of $6.3 million. For the twelve months ended December 31, 2015, compared to the same period in 2014, Gross Product Sales in Europe increased by $48.5 million or 35.8% to $183.8 million with an unfavourable impact from changes in currency exchange rates of $23.2 million. Growth was primarily driven by sales of *Paw Patrol* in France, Italy and the UK.

For the three months ended December 31, 2015, compared to the same period in 2014, Gross Product Sales in the Rest of World region increased by $7.0 million or 35.0% to $27.3 million, with an unfavourable impact from changes in currency exchange rates of $2.4 million. Growth was primarily driven by increases in *Paw Patrol* product sales. For the twelve months ended December 31, 2015, compared to the same period in 2014, Gross Product Sales in the Rest of World region increased by $18.7 million or 21.3% to $106.7 million with an unfavourable impact from changes in currency exchange rates of $5.7 million. The increases were primarily driven by increases in *Paw Patrol* and *Zoomer* product sales.

Gross Profit

Gross profit for the three months ended December 31, 2015, compared to the same period in 2014, increased by $13.6 million, or 11.5%, to $131.6 million due to higher revenue and favorable product mix. As a percentage of revenue, gross profit increased from 49.7% to 50.9% for the period compared to the same period in 2014. For the twelve months ended December 31, 2015, compared to the same period in 2014, gross profit increased by $100.8 million, or 28.1% to $458.9 million. The increase was due to higher revenue and favorable product mix. As a percentage of revenue, gross profit increased from 50.0% to 52.2% in the period compared to the same period in 2014.

Selling, Marketing, Distribution and Product Development Expenses

Marketing expenses increased by $17.2 million, or 42.8% to $57.4 million for the three months ended December 31, 2015 compared to the same period in 2014, as a result of increased promotions and advertising. Marketing expenses as a percentage of revenue increased from 16.9% to 22.2% for the three months ended December 31, 2015 compared to the same period in 2014. For the twelve months ended December 31, 2015 compared to the same period 2014, marketing expenses increased by $17.4 million or 23.6% to $91.2 million as a result of increased investment in media and digital media and higher promotional, merchandising and consumer research expenses. Marketing expenses as a percentage of revenue increased from 10.3% in 2014 to 10.4% for the twelve months ended December 31, 2015.

Product development expenses decreased by $0.1 million, or 2.1% to $4.7 million for the three months ended December 31, 2015 compared to the same period in 2014. Product development expenses as a percentage of revenue for the three months ended December 31, 2015 decreased to 1.8% from 2.0% compared to the same period last year. For the twelve months ended December 31, 2015 compared to the same period in 2014, product development expenses increased by $2.0 million or 14.9% to $15.4 million, primarily due to increased investment in the Remote Control and Interactive Characters segment and the Boys Action and High-Tech Construction segment to support the *Zoomer* and *Meccano* brands, development of the interactive *Yoda* and continued investment in *Paw Patrol*. Product development expenses as a percentage of revenue decreased by 0.2% to 1.7% for the twelve months ended December 31, 2015 compared to the same period in 2014.

Selling expenses increased by $3.7 million, or 26.4% to $17.7 million for the three months ended December 31, 2015 as compared to the same period in 2014, driven by higher revenues and royalties related to the sales of *Star Wars* licensed products. Selling expenses, as a percentage of revenue increased to 6.9% for the three months ended December 31, 2015 from 5.9% in the same period in 2014. For the twelve months ended December 31, 2015 compared to the same period in 2014, selling expenses increased by $18.3 million or 48.7% to $55.6 million, driven by higher revenues and royalties related to the sales of *Star Wars* licensed products. Selling expense as a percentage of revenue increased to 6.3% for the twelve months ended December 31, 2015 from 5.2% in the same period in 2014.

Distribution expenses increased by $2.4 million or 40.0% to $8.4 million for three months ended December 31, 2015 compared to the same period in 2014, driven by higher volume. Distribution expenses as a percentage of revenue increased to 3.3% from 2.5% in the three months ended December 31, 2015 compared to the same period in 2014. For the twelve months ended December 31, 2015 compared to the same period in 2014, distribution expenses increased by $6.6 million or 44.0% to $21.6 million, driven by higher volume and costs associated with the change of the Company's U.S. third party warehouse provider. Distribution expenses as a percentage of revenue increased to 2.5% for the twelve months ended December 31, 2015 from 2.1% in the same period in 2014.

Administrative Expenses

Administrative expenses increased by $11.4 million or 30.7% to $48.5 million for three months ended December 31, 2015 compared to the same period in 2014. Administrative expenses as a percentage of revenue increased to 18.8% for three months ended December 31, 2015 from 15.6% in the same period in 2014. The increase was driven primarily by $7.1 million in share based compensation expense as a result of ongoing expenses associated with the equity participation agreements and the grants of restricted share units to employees upon closing of the IPO. For the twelve months ended December 31, 2015 compared to the same period in 2014, administrative expenses increased by $71.5 million or 57.5% to $195.9 million, primarily due to share based compensation of $50.7 million (as described above) and higher general and administrative expenses. For the twelve months ended December 31, 2015, administrative expenses as a percentage of revenue increased from 17.4% in 2014 to 22.3% in 2015. Excluding share based compensation expense, administration expenses as a percentage of revenue in 2015 were 16.5% for the twelve months ended December 31, 2015, or 0.9% lower than the same period in 2014.

Finance Costs

Finance costs increased by $4.4 million to $4.9 million for the three months ended December 31, 2015 compared to the same period in 2014, driven by $3.0 million of interest associated with the Company's settlement agreement with the CRA in relation to the previously disclosed transfer pricing matter arising from the CRA's audit of the cost sharing arrangements between Spin Master Ltd. and a foreign affiliate during the 2004-2013 taxation years. For the twelve months ended December 31, 2015 compared to the same period in 2014, finance costs increased by $3.7 million to $6.5 million, driven primarily by the interest on the CRA settlement agreement described above.

Income tax Expense

Income tax expense decreased by $0.8 million to $2.8 million for the three months ended December 31, 2015. Income tax expenses for three months ended December 31, 2015 includes a onetime expense of $10.5 million in relation to the CRA settlement agreement described above. For the twelve months ended December 31, 2015 compared to the same period in 2014 income tax expense increased $9.3 million to $32.6 million including the CRA settlement agreement. The tax rate used to establish the income tax expense is the applicable estimated effective rate of each entity of the Company.

EBITDA, Adjusted EBITDA and Adjusted Net Income

EBITDA decreased by $15.9 million, or 98.1% to $0.3 million for the three months ended December 31, 2015 compared to the same period in 2014. EBITDA increased by $3.0 million or 2.8% to $109.0 million, for the twelve months ended December 31, 2015 compared to the same period in 2014.

Adjusted EBITDA decreased by $7.9 million or -36.6% to $13.7 million for the three months ended December 31, 2015 compared to the same period in 2014. Adjusted EBITDA increased by $48.7 million or 43.6% to $160.4 million for the twelve months ended December 31, 2015 compared to the same period in 2014.

Adjusted Net Income decreased by $3.0 million or 30.9% to $6.7 million for the three months ended December 31, 2015 compared to the same period in 2014. Adjusted Net Income increased by $32.3 million or 48.6% to $98.6 million, for the twelve months ended December 31, 2015 compared to the same period in 2014.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

	Three Months Ended			
(in $ millions, except percentages and EPS)	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Revenue	258.4	386.8	127.7	106.5
Adjusted EBITDA (1)	13.7	118.7	17.9	10.3
Adjusted EBITDA Margin (1)	5.3%	30.7%	14.1%	9.7%
Net Income / (loss)	(13.3)	51.1	7.6	1.7
Net Income / (loss) attributable to – owners of the company	(13.3)	48.8	6.4	1.4
Earnings per share attributable to – owners of the company (in dollars) (2)				
Basic and Diluted EPS	$ (0.13)	$ 0.52	$ 0.08	$ 0.02
Adjusted Net Income / (loss)	6.7	80.4	8.1	3.4
Adjusted Net Income / (loss) attributable to – owners of the company	6.7	78.1	6.9	3.1
Earnings per share attributable to – owners of the company (in dollars) (3)	$ 0.07	$ 0.83	$ 0.08	$ 0.04
Basic and Diluted EPS				
Free Cash flow (1)	(6.2)	75.8	5.8	(8.2)

(1) See "Non-IFRS Financial Measures"
(2) Amounts per share give effect on a retrospective basis following the Reorganization that occurred prior to the IPO
(3) Quarterly adjusted earnings per share does not reconcile with annual earnings per share due to rounding.

The following table provides reconciliations of EBITDA, Adjusted EBITDA, Adjusted Net Income and Free Cash Flow:

	Three Months Ended			
(in $ millions, except percentages and EPS)	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Net Income after Tax	(13.3)	51.1	7.6	1.7
Finance Costs	4.9	0.9	0.4	0.3
Depreciation and Amortization	5.9	5.2	6.7	5.1
Income Tax	2.8	26.4	2.6	0.7
EBITDA	0.3	83.7	17.3	7.8
Restructuring (2)	0.9	1.7	0.5	0.4
Recovery of contingent liability (3)	(0.5)	-	-	-
Foreign exchange loss (gain) (4)	0.5	4.4	(0.1)	1.6
Offering Costs (5)	0.1	0.1	0.2	0.4
Stock Based Compensation (6)	7.4	43.3	-	-
One time income from Transfer of Non Business Related Assets (7)	(0.1)	(9.6)	-	-
One time Service Fee income (8)	-	(5.0)	-	-
Impairment of Intangible Asset (9)	0.7	-	-	-
One time Legal Expense (10)	3.3	-	-	-
Fair Market Value adjustments (11)	1.0	-	-	-
Adjusted EBITDA	13.7	118.7	17.9	10.2
Finance Costs (12)	1.9	1.1	0.4	0.3
Depreciation and Amortization	5.9	5.2	6.7	5.1
Income Tax (12)	(3.7)	22.2	2.6	0.7
Tax Effect of Normalization Adjustments (13)	2.8	9.8	0.2	0.8
Adjusted Net Income	6.7	80.4	8.1	3.3
Net cash flows generated by (used in) operating activities	65.1	52.4	0.4	(63.6)
Plus:				
Changes in Working Capital	(62.5)	35.7	13.8	63.1
Net cash flows generated by (used in) operating activities before working capital changes	2.6	88.1	14.2	(0.5)
Less:				
Net cash flows used in investing activities	(60.8)	(15.3)	(8.4)	(7.7)
Plus:				
Cash used for Licence, Brand and Business Acquisitions	52.0	3.1	-	-
Free Cash Flow (1)	(6.2)	75.8	5.8	(8.2)

(1) See "Non-IFRS Financial Measures"
(2) 2015 restructuring primarily related to changes to the Company's executive team. 2014 restructuring related to organizational changes in Europe only. The 2013 restructuring related to a corporate restructuring program started in 2011 to reduce the cost structure of the organization and headcount by 35%.
(3) A write off of contingent consideration related to a future earn-out provision associated with the acquisition of Spy Gear occurred as sales targets were not met to achieve the additional pay out.
(4) Transaction gains and losses generated by the effect of foreign exchange recorded on assets and liabilities denominated in a currency that differs from the functional currency of the applicable entity are recorded as foreign exchange gain or loss in the period which they occur.
(5) Offering Costs are considered a one time expense and are not reflective of on going costs of the business.
(6) Stock based compensation is related to expenses associated with subordinate voting shares granted to equity participants and restricted stock units granted to employees at the time of the IPO.
(7) One of the predecessor corporations to the Company owned assets which are non income producing and do not relate to the business of the Company. Accordingly, the assets were transferred to the principal shareholders prior to the closing of the IPO through dividends in kind at their current fair market value.
(8) One time service fee income is in connection with the acquisition of Cardinal and services provided to Cardinal prior to the closing of the transaction in Q3 2015.
(9) Impairment of Intangible asset related to Content Development.
(10) One time legal expense related to an outstanding litigation matter in Q4 2015
(11) Amortization of Fair Market Value adjustments relating to acquisition of Cardinal Industries Inc. in the fourth quarter of 2015
(12) Income tax expense /(recovery) and Finance Costs have been adjusted for 2015 to exclude Financial Impacts related to the settlement of certain tax matters as they are not reflective of on ongoing costs of the business.
(13) Tax effect of normalization adjustments (Footnotes 3-11). Normalization adjustments tax effected at the normalized tax rate of the given period.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity is cash flow from operations. In addition, as at December 31, 2015, the Company had $79.1 million available under the Senior Secured Revolving Credit Facility portion of its credit facility and $150 million available under the Senior Secured Delayed Draw Term Loan. During the quarter, the Company repaid the remaining $55 million of the $80 million borrowed at the time of the IPO under the Senior Secured Delayed Draw Term Loan, of which $25 million had previously been repaid in the third quarter of 2015.

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

The Company has financed $2.8 million of the *Little Charmers* production costs with a loan from the National Bank of Canada. The financing of the production costs of *Little Charmers* is directly related to the expected receipt of eligible government tax credits. As of December 31, 2015, the Company had $0.3 million available under this credit agreement. The Company intends to continue to use this credit facility to fund the costs of future television productions.

The following table provides a summary of Spin Master's consolidated cash flows for three and twelve months ended December 31, 2015 and 2014.

	Three months ended December 31		Twelve months ended December 31	
(in $ millions, except percentages)	**2015**	2014	**2015**	2014
Net cash flows provided by operating activities	**65.1**	97.0	**55.6**	124.0
Net cash flows used in investing activities	**(60.8)**	(9.2)	**(93.6)**	(26.2)
Net cash flows used in financing activities	**(10.1)**	(7.1)	**(11.5)**	(23.1)
Net increase (decrease) in cash	**(5.8)**	80.7	**(49.5)**	74.6
Effect of exchange rate changes on cash	**(4.1)**	0.2	**(6.1)**	0.2
Cash at beginning of period	**55.6**	20.4	**101.3**	26.5
Cash at end of period	**45.7**	101.3	**45.7**	101.3

Capital and Investment Framework

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

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

CASH FLOW

Cash from Operating Activities

Cash flows from operating activities were $65.1 million for the three months ended December 31, 2015 compared to $97.0 million for the same period in 2014. For the twelve months ended December 31, 2015 cash flows from operating activities were $55.6 million compared to $124.0 million from operating activities for the same period in 2014. The decrease in cash from operating activities due to by changes in working capital driven by higher accounts receivable as a result of increased sales and lower accounts payable and other accrued liabilities.

Investing Activities

The following table provides a summary of Spin Master's consolidated cash flows used for investing activities for the three and twelve months ended December 31, 2015 and 2014:

	Three months ended December 31		Twelve months ended December 31	
	2015	2014	**2015**	2014
Capital Expenditure				
Tooling	**3.9**	6.4	**13.8**	9.0
Other	**0.9**	0.0	**1.5**	0.5
Total Capital Expenditures	**4.8**	6.4	**15.2**	9.5
Intangible Assets				
Brands, Licences and trademark acquisitions	**2.7**	0.0	**5.8**	1.3
Content development	**3.4**	2.3	**21.8**	14.6
Computer software	**0.7**	0.5	**1.5**	0.8
Total Intangible Assets	**6.8**	2.8	**29.1**	16.7
Business Acquisition (net of cash received)	**49.3**	0.0	**49.3**	0.0
Net cash flows used in investing activities	**60.9**	9.2	**93.6**	26.2

Cash flows used in investing activities were $60.9 million for the three months ended December 31, 2015 compared to $9.2 million for the same period in 2014. The increase in cash flows used in investing activities was driven primarily by the acquisition of Cardinal in the fourth quarter of 2015. For the twelve months ended December 31, 2015 cash flows used in investing activities were $93.6 million compared to $26.2 million for the same period in 2014. The increase in cash flows used in investing activities was driven by increased investment in tooling as a result of higher sales volumes, content development and the acquisition of Cardinal

Financing Activities

Cash flows used in financing activities were $10.1 million for the three months ended December 31, 2015 and $11.5 million for the twelve months ended December 31, 2015. Cash flows used in investing activities consist of change in bank indebtedness, payment of cash dividends offset by the new proceeds from the issuance of common stock from the IPO.

Cash flows used in financing activities were $6.9 million for the three months ended December 31, 2014 and $23.0 million for the twelve months ended December 31, 2014. Cash flows used in investing activities primarily consisted of the repayment of bank indebtedness and the repayment of related party loans.

Free Cash Flow

The following table provides a summary of Spin Master's consolidated Free Cash Flow (a non-IFRS measure) for three and twelve months ended December 31, 2015 and 2014:

	Three months ended December 31		Twelve months ended December 31	
(in $ millions, except percentages)	**2015**	2014	**2015**	2014
Free Cash Flow				
Net cash flows generated by (used in) operating activities	**65.1**	97.0	**55.6**	124.0
Plus:				
Changes in Working Capital	**(62.5)**	(86.5)	**50.0**	(34.2)
Net cash flows generated by (used in) operating activities before working capital changes	**2.6**	10.5	**105.7**	89.8
Less:				
Net cash flows used in investing activities	**(60.8)**	(9.2)	**(93.6)**	(26.2)
Plus:				
Cash used for Licence, Brand and Business Acquisitions	**52.0**	–	**55.1**	1.3
Free Cash Flow	**(6.2)**	1.3	**67.2**	64.9

Free Cash Flow was -$6.2 million for the three months ended December 31, 2015 compared to $1.1 million for the same period in 2014. For the twelve months ended December 31, 2015 Free Cash Flow was $67.2 million an increase of $2.3 million compared to the same period in 2014. The increase in Free Cash Flow was due to higher net cash flows generated by operating activities before working capital changes and offset by increased investing activities. Free Cash Flow includes a onetime payment of $20.3 million as part of the IPO to settle equity participation arrangements. Excluding this payment, Free Cash Flow was $87.5 million an increase of 35.2% compared to the same period in 2014.

COMMITMENTS

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

The following table summarizes (in US$ millions) Spin Masters contractual commitments and obligations as at December 31, 2015, which relate primarily to the leasing of offices and related office equipment and minimum guarantees due to licensors. The leases have been entered into with terms of between two and ten years in length and minimum guarantees to licensors are primarily due within 24 months, but can extend beyond 24 months.

	Lesss Than 1 Year	**1 year to 5 Years**	**Greater than 5 Years**	**Total**
Lease obligations	6.5	12.8	4.3	23.6
Minimum Guarantees Due to Licensors	14.3	23.3	–	37.7
Borrowings	3.4	46.9	–	50.3
Total Commitments	**24.2**	**83.0**	**4.3**	**111.6**

OFF-BALANCE SHEET ARRANGEMENTS

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

OUTSTANDING SHARE CAPITAL

As at March 30 2016, there were 79,680,812 Multiple Voting Shares outstanding and 18,848,928 Subordinate Voting Shares outstanding. There are also 763,495 Subordinate Voting Shares issuable pursuant to grants of restricted share units to employees at the time of the IPO. (December 31, 2014 – 79,680,812 Multiple Voting Shares and 5,533,673 Subordinate Voting Shares outstanding, taking into consideration the reorganization that was completed prior to the IPO.

RISKS RELATING TO SPIN MASTER'S BUSINESS

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

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

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

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

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

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

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

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

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

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

One or more of the Company's licensors may allege that Spin Master has breached its license agreement with them, and accordingly seek to terminate Spin Master's license. If successful, this could result in the Company's loss of the right to use the licensed intellectual property, which could adversely affect the Company's ability to commercialize its technologies, products or services, as well as have a material adverse effect on its business, financial condition and performance.

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

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

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

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

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

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

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

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

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

Spin Master periodically receives claims of infringement or otherwise becomes aware of potentially relevant patents, copyrights, trademarks or other intellectual property rights held by other parties. Responding to any infringement claim, regardless of its validity, may be costly and time- consuming and may divert the Company's attention. If Spin Master or its licensors are found to be infringing on the intellectual property rights of any third party, Spin Master or its licensors may be required to obtain a license to use those rights, which may not be obtainable on reasonable terms, if at all. The Company also may be subject to significant damages or injunctions against the development and sale of some of its products or against the use of a trademark or copyright in the sale of some of its products. Spin Master's insurance does not cover all types of intellectual property claims and insurance levels for covered claims may not be adequate to indemnify the Company against all liability, which could materially and adversely harm its business, financial condition and performance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A small number of retailers account for a large share of Spin Master's total sales. For 2015, Wal-Mart Stores, Inc., Target Corporation and Toys "R" Us, Inc. collectively accounted for approximately 57% of the Company's Gross Product Sales. This concentration means that if one or more of Spin Master's major customers were to experience difficulties in fulfilling their obligations to the Company, cease doing business with the Company, significantly reduce the amount of their purchases from the Company, favour competitors or new entrants, return substantial amounts of Spin Master's products, favour its competitors or increase their competition with Spin Master by expanding their private label product lines or seek material financial contributions from the Company towards price reductions at the retail level, the Company's business, financial condition and performance could suffer. In addition, increased concentration among Spin Master's customers could also negatively impact its ability to negotiate higher sales prices for its products, could result in lower gross margins and could reduce the number of products the Company would otherwise be able to bring to market. Retailers do not make any long-term commitments to the Company regarding purchase volumes and make all purchases by delivering one-time purchase orders. Any customer could reduce its overall purchases of the Company's products, reduce the number and variety of the Company's products that it carries and the shelf space allotted for Spin Master's products, or otherwise seek to materially change the terms of their business relationship with Spin Master at any time. Any such change could significantly harm the Company's business, financial condition and performance. Similarly, liquidity problems at one or more of the Company's key customers could expose the Company to losses from bad debts and negatively impact its business, financial condition and performance. Spin Master's sales to retailers are typically made on credit without collateral. There is a risk that customers will not pay, or that payment will be delayed, because of bankruptcy or other factors beyond Spin Master's control, which could increase its exposure to losses from bad debts and increase its cost of sales. In addition, if these or other retailers were to cease doing business as a result of bankruptcy, or significantly reduce the number of stores they operate, it could have a material adverse effect on the Company's business, financial condition and performance. Spin Master's credit insurance may not cover all types of claims against customers and insurance levels for covered claims may not be adequate to indemnify the Company against all liability, which could materially and adversely harm the Company's business, financial condition and performance.

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

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

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

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

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

Risks Related to the Broadcast Entertainment Industry.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Spin Master maintains significant amounts of data electronically in locations around the world. This data relates to all aspects of the Company's business and also contains certain customer and consumer data. The Company maintains systems and processes designed to protect this data, but notwithstanding such protective measures, there is a risk of intrusion or tampering that could compromise the integrity and privacy of this data. In addition, Spin Master provides confidential and proprietary information to its third-party business partners in certain cases where doing so is necessary to conduct the Company's business. While Spin Master obtains assurances from those parties that they have systems and processes in place to protect such data, and where applicable, that they will take steps to assure the protections of such data by third parties, nonetheless those partners may also be subject to data intrusion or otherwise compromise the protection of such data. Any compromise of the confidential data of Spin Master's customers, its consumers or itself, or failure to prevent or mitigate the loss of this data could disrupt Spin Master's operations, damage its reputation, violate applicable laws and regulations and subject the Company to additional costs and liabilities and have a material and adverse impact on its business, financial condition and performance.

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

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

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

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

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

FINANCIAL RISK MANAGEMENT

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to these risks. The principal financial risks to which the Company is exposed are described below.

Foreign currency risk

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

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

Interest rate risk

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

Credit risk and Customer Concentration

The Company is dependent on three main retailers with respect to product sales for the majority of its products. These three customers accounted for approximately 57% and 63% of consolidated gross sales for the nine month periods ended December 31, 2015 and 2014 respectively, as follows

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

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

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

RELATED PARTY TRANSACTIONS

During the third quarter of 2015, as part of the IPO, one of the predecessor corporations to the Company owned assets which were non-income producing and do not relate to the business of the Company. Accordingly, the assets were transferred to the Founders prior to the closing of the IPO through dividends-in-kind at their current fair market value. The aggregate amount of the dividends-in-kind was $9.5 million, which was recorded in other income in quarter.

During the third quarter of 2015, one of the predecessor corporations to the Company redeemed preferred shares owned by two of the Founders having an aggregate redemption amount of C$6.1 million and issued promissory notes in payment therefor. The promissory notes were paid by the Company prior to the IPO by drawing on the Company's credit facility.

Following the amalgamation, the Company declared dividends to the Founders in the aggregate amount of $235.1 million, which were satisfied with a cash payment of approximately $25.3 million and $209.7 million in promissory notes after accounting for set off against existing indebtedness owing by the Founders to the Company in the amount of approximately $0.7 million. The promissory notes were paid with proceeds from the IPO and by drawing down on the Company's credit facility immediately following the closing of the IPO.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in Note [2] to the fiscal 2015 audited consolidated financial statements and accompanying notes, which have been prepared in accordance with IFRS. The preparation of financial statements requires management to make estimates, assumptions and judgements that affect the reported amounts of assets and liabilities, and related disclosures and the reported amounts of revenues and expenses during the periods covered by the financial statements.

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

Determination of cash-generating units

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

Functional currency

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

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

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

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

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

Impairment testing of goodwill and indefinite life intangible assets

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

Provision for inventory

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

Sales allowances

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

Income and other taxes

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

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

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

FUTURE CHANGES IN ACCOUNTING POLICIES

In May 2014, the International Accounting Standards Board ("IASB") and the US Financial Accounting Standards Board ("FASB") jointly issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"). 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 financial statements.

In May 2014, the IASB issued an amendment to IFRS 11, “Joint Arrangements”. Previously, IFRS 11 did not give explicit guidance on the accounting for acquisitions of interests in joint operations. The objective of the amendments is to add new guidance to IFRS 11 on accounting for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, “Business Combinations”. Acquirers of such interests are to apply the relevant principles on business combination accounting in IFRS 3 and other standards, as well as disclosing the relevant information specified in these standards for business combinations. The standard is available for early application with mandatory adoption required for fiscal years commencing on or after January 1, 2016 and is to be applied prospectively. The Company is currently assessing the impact of this standard on its financial statements.

In May 2014, the IASB issued amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”. In issuing the amendments, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of a tangible asset is not appropriate because revenue generated by an activity that includes the use of a tangible asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption is for an intangible asset, however, can be rebutted in certain limited circumstances. The standards are available for early application with mandatory adoption required for fiscal years commencing on or after January 1, 2016 and is to be applied prospectively. The Company is currently assessing the impact of these amendments on its financial statements.

In July 2014, the IASB issued the final version of IFRS 9, “Financial Instruments”, replacing IAS 39, “Financial Instruments: Recognition and Measurement”. This final version of IFRS 9 represents the completion of this project and it includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. IFRS 9 does not address the specific accounting for open portfolios or macro hedging as these items are part of a separate IASB project that is currently ongoing. The standard introduces a single, principles-based approach that amends both the categories and associated criteria for the classification and measurement of financial assets, which is driven by the entity’s business model for the portfolio in which the assets are held and the contractual cash flows of these financial assets. Certain amendments have been made to the financial asset classification and measurement principles in prior versions of IFRS 9. The standard introduces an amended hedging model which aligns hedge accounting more closely with an entity’s risk management activities and also includes a new financial asset impairment model which is based on expected losses rather than incurred losses. This final version of IFRS 9 supersedes earlier versions of this standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. The Company is currently assessing the impact of this standard on its financial statements.

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)”. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. These amendments will apply prospectively for annual periods beginning on or after January 1, 2016 with earlier application permitted. The Company is currently assessing the impact of these amendments on its financial statements.

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 disclosure in their financial statement. The standard is available for early application with mandatory adoption required for fiscal years commencing on or after January 1, 2016. The Company is currently assessing the impact of the IAS 1 amendments on its financial statements.

DISCLOSURE CONTROLS AND PROCEDURES

The Co-Chief Executive Officers and the Chief Financial Officer (the “Certifying Officers”), along with other members of management, have designed, or caused to be designed under their supervision, Disclosure Controls and Procedures (“DC&P”) to provide reasonable assurance that (i) material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the design and operating effectiveness of the Company's DC&P as at December 31, 2015 and have concluded that design and operations of DC&P were effective as at December 31, 2015 subject to the scope limitation described below. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the design and operating effectiveness of the Company's DC&P as at December 31, 2015 and have concluded that design and operations of DC&P were effective as at December 31, 2015, subject to the scope limitation described below.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Certifying Officers, along with other members of management, have also designed, or caused to be designed under their supervision, Internal Control over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes prepared in accordance with IFRS. The Certifying Officers have used the Internal Control – Integrated Framework (2013 COSO Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to design the Company's ICFR. The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the design and operating effectiveness of the Company's ICFR as at December 31, 2015 and have concluded that design and operations of ICFR were effective as at December 31, 2015, subject to the scope limitation described below.

There have been no changes in the Company's ICFR during the three-month period ended December 31, 2015 which have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

The Company's management, as permitted by securities legislation, for the period ended December 31, 2015, has limited the scope of its design of DC&P and ICFR to exclude controls, policies and procedures of Cardinal Industries, Inc., which Spin Master acquired through a wholly-owned subsidiary on October 2, 2015.

Included in Spin Master's consolidated financial statements for the three and twelve-month periods ended December 31, 2015 are the following amounts related to Cardinal Industries Inc.:

Consolidated Statement of Operations:

Revenue $25.4 million

Net Income $3.4 million

Consolidated Balance Sheet

Current Assets $34.5 million

Other Assets $1.2 million

Current Liabilities: $5.9 million

LIMITATIONS OF AN INTERNAL CONTROL SYSTEM

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

NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

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

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

Total Gross Sales represents Gross Product Sales plus other revenue comprised of royalties and licensing fees from third parties for the use of the Company’s intellectual property on the third parties’ products and revenue generated through the distribution of the Company’s television programs. Management uses Total Gross Sales to evaluate the Company’s total revenue generating capacity compared to internal targets and past performance and as a measure to understand the performance of the Company, on a monthly, quarterly and annual basis.

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

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

Reconciliation Tables

The following table presents a reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted Net Income, and Cash from (used in) Operations to Free Cash Flow for the fiscal years ended December 31, 2015, 2014 and 2013:

	Fiscal Years Ended, December 31,		
(in $ millions, except percentages)	**2015**	2014	2013
Reconciliation of Non-IFRS Financial Measures			
Net income (loss)	**47.0**	62.2	19.1
Income tax expense (recovery)	**32.6**	23.3	6.9
Finance costs	**6.5**	2.8	3.4
Depreciation and amortization	**22.9**	17.7	18.6
EBITDA (1)	**109.0**	106.0	48.0
Normalization Adjustments:			
Restructuring (2)	**3.5**	0.6	6.6
Recovery of contingent liability (3)	**(0.5)**	(0.7)	0.0
Foreign exchange loss (gain) (4)	**6.5**	4.9	(1.5)
Offering Costs (5)	**0.9**	0.9	0.0
Stock Based Compensation (6)	**50.7**	0.0	0.0
One time income from Transfer of Non Business Related Assets (7)	**(9.7)**	0.0	0.0
One time Service Fee income (8)	**(5.0)**	0.0	0.0
Impairment of Intangible Asset (9)	**0.7**	0.0	0.0
One time Legal Expense (10)	**3.3**	0.0	0.0
Fair Market Value adjustments (11)	**1.0**	0.0	0.0
Adjusted EBITDA (1)	**160.4**	111.7	53.1
Income tax expense (recovery) (12)	**21.8**	23.3	6.9
Finance costs (12)	**3.5**	2.8	3.4
Depreciation and amortization	**22.9**	17.7	18.6
Tax effect of normalization adjustments (13)	**13.6**	1.6	1.4
Adjusted Net Income (1)	**98.6**	66.3	22.8
Cash provided by operating activities	**55.6**	124.0	51.6
Plus:			
Changes in working capital	**50.0**	(34.2)	(9.6)
Cash provided by operating activities before working capital changes	**105.7**	89.8	42.0
Less:			
Cash used in investing activities	**(93.6)**	(26.2)	(14.7)
Plus:			
Cash used for brand and business acquisitions	**55.1**	1.3	1.9
Free Cash Flow (1)	**67.2**	64.9	29.2

Footnotes:

(1) See “Non-IFRS Financial Measures”

(2) 2015 restructuring primarily related to changes to the Company’s executive team. 2014 restructuring related to organizational changes in Europe only. The 2013 restructuring related to a corporate restructuring program started in 2011 to reduce the cost structure of the organization and headcount by 35%.

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

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

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

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

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

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

(9) Impairment of Intangible asset related to Content Development.

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

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

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

(13) Tax effect of normalization adjustments (Footnotes 3-11). Normalization adjustments tax effected at the effective tax rate of the given period.

FORWARD-LOOKING STATEMENTS

Certain statements, other than statements of historical fact, contained in this document constitute "forward-looking information" within the meaning of certain securities laws, including the *Securities Act* (Ontario), and are based on expectations, estimates and projections as of the date on which the statements are made in this document. The words "plans", "expects", "projected", "estimated", "forecasts", "anticipates", "indicative", "intend", "guidance", "outlook", "potential", "prospects", "seek", "strategy", "targets" or "believes", or variations of such words and phrases or statements that certain future conditions, actions, events or results "will", "may", "could", "would", "should", "might" or "can", or negative versions thereof, "be taken", "occur", "continue" or "be achieved", and other similar expressions, identify statements containing forward-looking information. Statements of forward-looking information in this document include, without limitation, statements with respect to: the use of free cash flows; the receipt of eligible government tax credits; the business plans and strategies of the Company, including development and acquisition opportunities and product re-launches; intentions with respect to, and the ability to execute, its growth strategies; new brands and brand expansions; securing additional broader and more significant licenses from third parties; international sales; the number and timing of launching new products, brands and entertainment properties; the estimated effective tax rate of each entity of the Company; and the intended use of borrowings.

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

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. Known and unknown risk factors, many of which are beyond the control of the Company, could cause actual results to differ materially from the forward-looking information in this document. Such risks and uncertainties include, without limitation, the factors discussed under "Risks Relating To Spin Master's Business". These risk factors are not intended to represent a complete list of the factors that could affect the Company and investors are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements.

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