

Condensed consolidated interim financial statements of

Spin Master Corp.

As at September 30, 2015 and December 31, 2014 and for the three
and nine month periods ended September 30, 2015 and 2014

Spin Master Corp.

Condensed consolidated interim financial statements

As at September 30, 2015 and December 31, 2014 and for the three and nine month periods ended September 30, 2015 and 2014

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Spin Master Corp.

Condensed consolidated interim statements of operations and comprehensive income

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

| | Note | Three months ended September 30, | | Nine months ended September 30, | |
|--|------|----------------------------------|------------|---------------------------------|------------|
| | | 2015 | 2014 | 2015 | 2014 |
| Revenue | 3 | 386,829 | 293,808 | 620,998 | 478,049 |
| Cost of sales | | 181,597 | 144,053 | 293,705 | 237,951 |
| Gross profit | | 205,232 | 149,755 | 327,293 | 240,098 |
| Expenses | | | | | |
| Selling, marketing, distribution and product development | | 49,440 | 35,479 | 95,559 | 74,601 |
| Administrative | | 86,089 | 38,069 | 147,433 | 87,376 |
| Other expenses (income) | 4 | (13,311) | - | (13,311) | 33 |
| Foreign exchange loss (gain) | | 4,396 | 932 | 5,948 | (422) |
| Finance costs | 5 | 1,120 | 976 | 1,614 | 2,307 |
| Net income before income tax expense | 6 | 77,498 | 74,299 | 90,050 | 76,203 |
| Income tax expense | 7 | 26,407 | 19,105 | 29,716 | 19,644 |
| Net income | | 51,091 | 55,194 | 60,334 | 56,559 |
| Items that may be subsequently reclassified to profit or loss | | | | | |
| Foreign currency translation, net of taxes | | 8,052 | 7,692 | 17,162 | 8,117 |
| Comprehensive income | | 59,143 | 62,886 | 77,496 | 64,676 |
| Comprehensive income attributable to: | | | | | |
| Owners of the Company | | 56,832 | 54,426 | 74,486 | 56,039 |
| Non-controlling interests | | 2,311 | 8,460 | 3,010 | 8,637 |
| | | 59,143 | 62,886 | 77,496 | 64,676 |
| Net income attributable to: | | | | | |
| Owners of the Company | | 48,781 | 46,068 | 56,473 | 47,210 |
| Non-controlling interests | | 2,310 | 9,126 | 3,861 | 9,349 |
| | | 51,091 | 55,194 | 60,334 | 56,559 |
| Earnings per share attributable to owners of the Company | | | | | |
| Basic and diluted | | 0.52 | 0.54 | 0.64 | 0.55 |
| Weighted average of common shares outstanding | | 93,995,735 | 85,234,485 | 88,154,902 | 85,234,485 |

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

Spin Master Corp.

Condensed consolidated interim statements of financial position

(Unaudited, in thousands of United States dollars)

| | | As at | |
|---|------|-----------------------|----------------------|
| | Note | September 30, 2015 | December 31, 2014 |
| Assets | | | |
| Current | | | |
| Cash | | 55,582 | 101,292 |
| Trade and other receivables | 8 | 255,386 | 87,515 |
| Inventories | 9 | 58,980 | 38,350 |
| Prepaid expenses | | 11,785 | 7,729 |
| Loans to related parties | | - | 405 |
| | | 381,733 | 235,291 |
| Non-current | | | |
| Advances on royalties | | 700 | 703 |
| Property, plant and equipment | | 14,165 | 11,244 |
| Intangible assets | | 41,993 | 37,249 |
| Goodwill | | 3,501 | 3,847 |
| Deferred tax assets | | 23,622 | 24,896 |
| Other long-term assets | | - | 37,555 |
| | | 83,981 | 115,494 |
| | | 465,714 | 350,785 |
| Liabilities | | | |
| Current | | | |
| Trade payables and other liabilities | 10 | 209,365 | 130,718 |
| Advance from related parties | | - | 25 |
| Borrowings | 11 | 4,001 | - |
| Provisions | | 13,916 | 11,195 |
| Income tax payable | | 22,330 | 15,091 |
| Preferred shares | 13 | - | 257,776 |
| | | 249,612 | 414,805 |
| Non-current | | | |
| Borrowings | 11 | 51,182 | 839 |
| Other liabilities | | 225 | 340 |
| Deferred tax liabilities | | 931 | 1,026 |
| | | 301,950 | 417,010 |
| Shareholders' equity | | | |
| Issued capital | 13 | 589,678 | 1 |
| Accumulated deficit | | (494,660) | (118,782) |
| Contributed surplus | | 24,320 | 1,647 |
| Cumulative translation account | | 44,426 | 26,413 |
| Equity attributable to owners of the Company | | 163,764 | (90,721) |
| Non-controlling interests | | - | 24,496 |
| Total shareholders' equity | 13 | 163,764 | (66,225) |
| | | 465,714 | 350,785 |

Approved by the Board

_____ Director

_____ Director

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

Spin Master Corp.

Condensed consolidated interim statements of changes in equity nine month periods ended September 30, 2015 and 2014

(Unaudited, in thousands of United States dollars)

| | Issued capital | Accumulated deficit | Contributed surplus | Cumulative translation account | Non controlling Interest | Total |
|--------------------------------------|-------------------|------------------------|------------------------|--------------------------------------|--------------------------------|-----------------|
| | \$ | \$ | \$ | \$ | | \$ |
| Balance at December 31, 2013 | 1 | (170,678) | 1,647 | 9,604 | 14,677 | (144,749) |
| Net income | - | 47,210 | - | - | 9,349 | 56,559 |
| Other comprehensive income (loss) | - | - | - | 8,829 | (712) | 8,117 |
| | - | 47,210 | - | 8,829 | 8,637 | 64,676 |
| Balance at September 30, 2014 | 1 | (123,468) | 1,647 | 18,433 | 23,314 | (80,073) |
| Balance at December 31, 2014 | 1 | (118,782) | 1,647 | 26,413 | 24,496 | (66,225) |
| Net income | - | 56,473 | - | - | 3,861 | 60,334 |
| Other comprehensive income (loss) | - | - | - | 18,013 | (851) | 17,162 |
| Dividends | - | (235,052) | - | - | - | (235,052) |
| Issuance of common stock | 183,083 | - | - | - | - | 183,083 |
| Corporate reorganization | 406,594 | (197,299) | - | - | (27,506) | 181,789 |
| Stock-based compensation | - | - | 22,673 | - | - | 22,673 |
| | 589,677 | (375,878) | 22,673 | 18,013 | (24,496) | 229,989 |
| Balance at September 30, 2015 | 589,678 | (494,660) | 24,320 | 44,426 | - | 163,764 |

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

Condensed consolidated interim statements of cash flows nine month periods ended September 30, 2015 and 2014

(Unaudited, in thousands of United States dollars)

| | Note | 2015 | 2014 |
|--|------|-----------------|-----------------|
| Operating activities | | | |
| Net income | | 60,334 | 56,559 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities | | | |
| Income tax expense | 7 | 29,716 | 19,644 |
| Interest expense | | 349 | 1,494 |
| Depreciation and amortization of non-current assets | | 16,989 | 11,320 |
| Amortization of financing charges | | 328 | - |
| Fixed assets impairment | | 1,306 | - |
| Gain on transfer of non-business related assets | 4 | (9,566) | - |
| Stock-based compensation | | 22,673 | - |
| Change in working capital, net | 15 | (112,531) | (52,329) |
| Income taxes paid | 7 | (18,778) | (8,204) |
| Interest paid | | (304) | (1,491) |
| | | (9,484) | 26,993 |
| Investing activities | | | |
| Acquisition of property, plant and equipment | | (10,443) | (3,062) |
| Acquisition of intangible assets | | (22,296) | (13,941) |
| | | (32,739) | (17,003) |
| Financing activities | | | |
| Proceeds from borrowings | 11 | 80,385 | (194) |
| Repayment of borrowings | 11 | (26,369) | (6,622) |
| Advances on loans to related parties | | - | (469) |
| Settlement of loans to related parties | | 405 | - |
| Repayment of loans from related parties | | (25) | (8,794) |
| Issuance of common stock, net of transaction costs | | 179,199 | - |
| Dividends paid on common shares | | (235,052) | - |
| | | (1,457) | (16,079) |
| Change in cash and cash equivalents | | (43,680) | (6,089) |
| Impact of foreign exchange translation on cash | | (2,030) | 36 |
| Cash and cash equivalents, beginning of period | | 101,292 | 26,456 |
| Cash and cash equivalents, end of period | | 55,582 | 20,403 |

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

Spin Master Corp.

Notes to the condensed consolidated interim financial statements

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

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

1. Description of business

Spin Master Corp., (the "Company"), formerly SML Investments Inc., was incorporated on June 9, 2004, under the laws of the Province of Ontario, Canada. The Company is the sole owner of Spin Master Ltd., which was incorporated on May 9, 1994, under the laws of the Province of Ontario, Canada. The Company, through Spin Master Ltd. and its subsidiaries, is engaged in the design, marketing and sale of toys. On July 30, 2015, the Company completed an initial public offering (the "Offering"). The Company's subordinate voting shares are listed on the Toronto Stock Exchange under the stock symbol "TOY". The Company's principal place of business is 450 Front Street West, Toronto, Canada, M5V 1B6.

The Company has three reportable operating segments: North America, Europe and Rest of World (see Note 18). The North American segment is comprised of the United States and Canada. The European segment is comprised of the United Kingdom, France, Italy, the Benelux, Germany, Austria, and Switzerland. The Rest of World segment is primarily comprised of Hong Kong, China, and Mexico, as well as all other areas of the world serviced by the Company's distribution network.

2. Significant accounting policies

Statement of compliance

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

These unaudited interim financial statements were approved and authorized for issuance by the Board of Directors on November 10, 2015.

3. Revenue

The Company earns revenue from the following primary sources:

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|--------------------------------|----------------------------------|---------|---------------------------------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenue from the sale of goods | 382,253 | 291,972 | 609,829 | 474,142 |
| Other revenue | 4,576 | 1,836 | 11,169 | 3,907 |
| | 386,829 | 293,808 | 620,998 | 478,049 |

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

Spin Master Corp.

Notes to the condensed consolidated interim financial statements

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

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

4. Other income and expense

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|------|---------------------------------|------|
| | 2015 | 2014 | 2015 | 2014 |
| Impairment of non-current assets | 1,306 | - | 1,306 | 25 |
| Service fees | (5,051) | - | (5,051) | - |
| Gain on transfer of non-business related assets | (9,566) | - | (9,566) | 8 |
| | (13,311) | - | (13,311) | 33 |

Service fees

Associated with the acquisition of Cardinal Industries, Inc. ("Cardinal") as described in Note 19, the Company received approximately \$5,000 in service fees in connection with services provided to Cardinal prior to the acquisition date.

Gain on transfer of non-business related assets

Prior to the closing of the initial public offering, one of the predecessor corporations to the Company owned non-business related assets which were transferred at their fair value as of the date of the transaction to the principal shareholders. The non-business assets previously had no carrying value for financial reporting purposes. The aggregate amount of the dividend-in-kind and related gain on transfer totaled \$9,566.

5. Finance costs

| | Three months ended September 30 | | Nine months ended September 30, | |
|--|---------------------------------|------|---------------------------------|-------|
| | 2015 | 2014 | 2015 | 2014 |
| Interest on bank overdrafts and loans (other than those from related parties) | 291 | 357 | 390 | 662 |
| Interest on loans from related parties | 33 | 204 | 57 | 830 |
| Other finance expenses | 796 | 414 | 1,167 | 815 |
| | 1,120 | 976 | 1,614 | 2,307 |

Spin Master Corp.

Notes to the condensed consolidated interim financial statements

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

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

6. Operating expenses

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

Research and development costs

| | Three months ended September 30, | | Nine months ended September 30, | |
|--------------------------------|----------------------------------|-------|---------------------------------|-------|
| | 2015 | 2014 | 2015 | 2014 |
| Research and development costs | 4,138 | 3,704 | 10,790 | 8,386 |

Employee benefits expenses

| | Three months ended September 30, | | Nine months ended September 30, | |
|------------------------------|----------------------------------|--------|---------------------------------|--------|
| | 2015 | 2014 | 2015 | 2014 |
| Salaries, wages, and bonuses | 27,974 | 27,203 | 63,590 | 56,511 |
| Share-based payments | 43,513 | - | 43,513 | - |
| Termination benefits | 1,716 | 128 | 2,637 | 611 |
| Other employee benefits | 2,496 | 2,113 | 7,517 | 6,895 |
| | 75,699 | 29,444 | 117,257 | 64,017 |

7. Income tax expense

| | Three months ended September 30, | | Nine months ended September 30, | |
|--------------------------|----------------------------------|--------|---------------------------------|--------|
| | 2015 | 2014 | 2015 | 2014 |
| Current tax expense | 25,050 | 13,576 | 27,505 | 13,751 |
| Deferred tax expense | 1,357 | 5,529 | 2,211 | 5,893 |
| Total income tax expense | 26,407 | 19,105 | 29,716 | 19,644 |

Spin Master Corp.

Notes to the condensed consolidated interim financial statements

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

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

8. Trade and other receivables

| As at | September 30, 2015 | December 31, 2014 |
|----------------------------------|-----------------------|----------------------|
| Trade receivables | 298,952 | 120,258 |
| Sales allowances | (60,269) | (37,857) |
| Allowances for doubtful accounts | (945) | (914) |
| | 237,738 | 81,487 |
| Other receivables | 17,648 | 6,029 |
| | 255,386 | 87,516 |

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

9. Inventories

| As at | September 30, 2015 | December 31, 2014 |
|----------------|-----------------------|----------------------|
| Raw materials | 4,618 | 2,075 |
| Finished goods | 54,362 | 36,275 |
| | 58,980 | 38,350 |

The cost of inventories recognized as an expense for the three and nine month periods ended September 30, 2015 in respect of operations was \$166,336 and \$259,057, respectively (September 30, 2014 - \$133,993 and \$213,717, respectively).

10. Trade payables and other liabilities

| As at | September 30, 2015 | December 31, 2014 |
|---------------------------|-----------------------|----------------------|
| Trade payables | 145,357 | 61,505 |
| Accrued royalties | 28,147 | 17,413 |
| Other accrued liabilities | 35,861 | 51,800 |
| | 209,365 | 130,718 |

Spin Master Corp.

Notes to the condensed consolidated interim financial statements

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

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

11. Borrowings

| As at | September 30, 2015 | December 31, 2014 |
|--------------------------------|-----------------------|----------------------|
| Unsecured - at amortized cost | | |
| Loans from other entities (i) | 571 | 839 |
| | 571 | 839 |
| Secured - at amortized cost | | |
| Bank facilities (ii) and (iii) | 56,594 | - |
| | 57,165 | 839 |
| Less financing costs: | 1,982 | - |
| | 55,183 | |
| Current | 4,001 | - |
| Non-current | 51,182 | 839 |
| | 55,183 | 839 |

(i) Fixed rate loans with Region Nord-Pas de Calais, Cap Calais and OSEO related to Meccano operations in France, with remaining maturity periods not exceeding 3 years (December 31, 2014 - 3 years). The weighted average effective interest rate on the loans is 1.3% per annum (December 31, 2014 - 1.3% per annum). As at September 30, 2015 the Company owed \$571 (December 31, 2014 - \$839) against these loans.

(ii) Variable rate secured facility with maximum borrowings of \$2,992 to finance television production costs through one of the Company's production entities. The interest rate on amounts drawn under the facility bear interest at a variable rate referenced to the lending institution's Canadian dollar prime rate. Amounts outstanding are due prior to May 31, 2016.

The obligation under the facility is secured through a general security agreement over the production entity's assets and by a guarantee by the Company.

As at September 30, 2015 the Company had utilized \$2,694 (December 31, 2014 - \$nil) of the facility.

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

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

- CAD Prime Rate Loans;
- USD Base Rate Loans;
- Bankers' Acceptances from BA Lenders with a maturity of thirty (30) to one hundred and eighty (180) days (inclusive), subject to availability;

Spin Master Corp.

Notes to the condensed consolidated interim financial statements

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

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

Spin Master Corp.

Notes to the condensed consolidated interim financial statements

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

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

11. Borrowings and loans (continued)

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

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

- Total Leverage Ratio calculated on a quarterly basis, of 3.00 to 1.00 or less, provided that, in the event the Company's used proceeds of a borrowing under the Term Credit Facility to complete a single permitted acquisition with aggregate consideration greater than \$65,000 during any two consecutive fiscal quarters falling within the twelve month reporting period immediately following such permitted acquisition, the Company must only maintain the Total Leverage Ratio 3.50 to 1.00 or less; and
- Fixed Charge Coverage Ratio, calculated on a quarterly basis, at 1.10:1.00 or greater.

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

As at September 30, 2015, the Company had utilized \$4,421 (December 31, 2014 - \$2,705) of its Revolving Credit facility, including outstanding letters of credit of \$4,421 (December 31, 2014 - \$2,705) issued under the facility.

As at September 30, 2015, the Company had utilized \$53,900 (December 31, 2014 - \$nil) of its Term Loan facility.

12. Provisions

Contingencies

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

Additionally, the Company is involved in various routine legal proceedings incidental to the ordinary course of its business. The Company believes that the outcome of all pending legal proceedings in the aggregate is not reasonably likely to have a material adverse effect on the Company's business, financial condition and/or its results of operations. However, in light of the uncertainties involved in legal proceedings generally, the ultimate outcome of a particular matter could be material to the Company's operating results for a particular period depending on, among other things, the size of the loss or the nature of the liability imposed and the level of the Company's income for that particular period.

Spin Master Corp.

Notes to the condensed consolidated interim financial statements

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

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

13. Issued capital

(a) *Authorized as at December 31, 2014*

Unlimited number of Class A common shares;

Unlimited number of Class B common shares;

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

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

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

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

(b) *Authorized as at September 30, 2015*

Unlimited number of Multiple Voting Shares;

Unlimited number of Subordinate Voting Shares; and

Unlimited number of Preferred Shares issuable in series.

| <i>Issued and outstanding</i> | September 30, 2015 | December 31, 2014 |
|-----------------------------------|-------------------------------|----------------------|
| | \$ | \$ |
| Class A1 Common shares | - | 1 |
| Class A1 and A1 preference shares | - | 214,962 |
| Class X1 and X2 preference shares | - | 5,259 |
| Class Y preference shares | - | 37,555 |
| | - | 257,776 |
| Multiple voting shares | 406,595 | - |
| Subordinate voting shares | 183,083 | - |
| | 589,678 | - |
| | September 30, 2015 | December 31, 2014 |
| | # | # |
| Class A1 Common shares | - | 100 |
| Class A1 and A1 preference shares | - | 249,377,454 |
| Class X1 and X2 preference shares | - | 6,100,000 |
| Class Y preference shares | - | 43,568,000 |
| | - | 299,045,454 |
| Multiple voting shares | 79,680,812 | - |
| Subordinate voting shares | 19,612,423 | - |
| | 99,293,235 | - |

Spin Master Corp.

Notes to the condensed consolidated interim financial statements

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

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

13. Issued capital (continued)

On July 30, 2015, as part of the Offering, 12,225,000 Subordinate voting shares were issued at a price of C\$18.00 for gross proceeds, before expenses of C\$220,050,000. As part of the Offering, the underwriters were granted an over-allotment option exercisable at their sole discretion at any time, in whole or in part, for a period of 30 days after the closing of the Offering, to purchase from the Company, at the Offering price, up to an additional 1,833,750 Subordinate voting shares. On August 26, 2015, the over-allotment option granted to the underwriters was exercised in full, generating additional gross proceeds to Spin Master of C\$33,007,500.

Immediately prior to the Company's Offering, a reorganization of the Company and its subsidiaries was completed, resulting in the exchange of Class A1, Class A2 and Class Y preference shares held by the principal shareholders for Multiple voting shares. The completion of this reorganization also resulted in the elimination of the previously recognized non-controlling interest. Class X1 and X2 preference shares were redeemed by the Company and settled in cash.

The Company had equity participation arrangements ("Participation Arrangements") with nine senior employees and one former employee pursuant to which they were entitled to receive a cash payment and shares on the initial public offering of the Company. The Participation Arrangements served to reward the past service, and to encourage the retention. The Company satisfied the participants' entitlements by issuing an aggregate 4,790,178 Subordinate Voting Shares immediately prior to the closing of the Offering.

Upon completion of the Offering the Company immediately incurred compensation expense of \$38.6 million in respect of the Participation Arrangements. This amount has been included in the Company's financial results for the three months ended September 30, 2015. In addition, the Company expects to incur additional expenses of \$42.8 million in its financial statements over the six year period following the closing of the Offering on a graded basis of which \$3.1 million has been included in the Company's results for the three months ended September 30, 2015. In total, the Company has recognized \$41.7 million in its financial results for the three month period ended September 30, 2015 related to the Participation Arrangements.

In connection with the Offering, the Company issued restricted share units ("RSUs") at a value of approximately \$10.5 million, to all of its current employees (other than the participants under the Participation Arrangements and employees in China) immediately prior to the closing of the Offering. The RSUs serve to reward the past service of the employees and align the interests of the employees with those of the Company. The Company will satisfy the employees' entitlements under the RSUs by issuing an aggregate of approximately 763,495 Subordinate Voting Shares on the first anniversary of the closing of the Offering. Only employees that are employed on the settlement date will receive Subordinate Voting Shares. Each RSU granted will reduce the quantity of Multiple voting shares issued to the principal shareholders in connection with the reorganization described above.

14. Earnings per share

In accordance with IAS 33 – *Earnings per share*, basic and diluted earnings per share amounts are calculated by dividing the net income attributable to common shareholders of the Company by the weighted average number of shares issued during the period after giving effect, on a retrospective basis, to share capital changes due to a reorganization as at June 30, 2015, that occurred as part of the initial public offering subsequent to June 30, 2015 as described in Note 13.

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Notes to the condensed consolidated interim financial statements

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

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

15. Change in working capital, net

| | Nine months ended September 30 | |
|--------------------------------------|--------------------------------|-----------------|
| | 2015 | 2014 |
| (Increase) decrease in: | | |
| Trade and other receivables | (167,871) | (98,203) |
| Inventories | (20,630) | (23,796) |
| Prepaid expenses | (4,056) | (678) |
| Advances on royalties | 3 | (757) |
| Trade payables and other liabilities | 78,648 | 75,134 |
| Provisions | 2,721 | (5,220) |
| Foreign currency translation | (1,346) | 1,191 |
| Net change in working capital | (112,531) | (52,329) |

16. Commitments for expenditures

As at September 30, 2015, the Company had minimum guaranteed license payments of approximately \$31,859 (December 31, 2014 - \$7,250).

Following the acquisition of Cardinal on October 2, 2015, the Company has agreed to pay an estimated contingent consideration of up to \$19.5 million payable over five years as described in Note 19.

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Notes to the condensed consolidated interim financial statements

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

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

17. Financial instruments and risk management

Fair value measurements

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

| As at | September 30, 2015 | December 31, 2014 |
|---|-----------------------|----------------------|
| Financial assets | | |
| Cash | 55,582 | 101,292 |
| Trade and other receivables | 255,386 | 87,515 |
| Loans to related parties | - | 405 |
| Financial liabilities | | |
| Accounts payables and accrued liabilities | 209,366 | 130,718 |
| Borrowings | 55,183 | 839 |
| Loans from related parties | - | - |
| Preferred shares | - | 257,776 |
| Other long-term liabilities | 225 | 340 |

18. Segment disclosures

Segment information

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

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

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

Spin Master Corp.

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

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18. Segment disclosures (continued)

Segment revenues and results

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|-------------------------------------|----------------------------------|----------|---------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues by Segment | | | | |
| North America | 323,594 | 239,509 | 491,042 | 390,047 |
| Europe | 71,409 | 48,170 | 124,834 | 76,634 |
| Rest of World | 44,494 | 41,305 | 79,322 | 67,657 |
| Gross product sales | 439,498 | 328,984 | 695,198 | 534,338 |
| Other revenues and sales allowances | (52,669) | (35,176) | (74,200) | (56,289) |
| Revenue | 386,829 | 293,808 | 620,998 | 478,049 |
| Segment Income | | | | |
| North America | 88,055 | 77,937 | 88,675 | 75,365 |
| Europe | 4,325 | 3,827 | 10,268 | 3,369 |
| Rest of World | (8,832) | (5,460) | 1,300 | 2,841 |
| Total segment income | 83,548 | 76,304 | 100,243 | 81,575 |
| Corporate and other | (6,050) | (2,005) | (10,193) | (5,372) |
| Net income before income taxes | 77,498 | 74,299 | 90,050 | 76,203 |

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

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

Segment assets

| As at | September 30, 2015 | December 31, 2014 |
|---------------------------|-----------------------|----------------------|
| North America | 322,390 | 210,567 |
| Europe | 82,735 | 57,894 |
| Rest of World | 37,335 | 17,913 |
| Total segment assets | 442,460 | 286,374 |
| Corporate and other | 23,254 | 64,411 |
| Consolidated total assets | 465,714 | 350,785 |

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18. Segment disclosures (continued)

Segment assets (continued)

Non-current assets by location of assets are detailed as follows:

| As at | September 30, 2015 | December 31, 2014 |
|----------------------------------|-----------------------|----------------------|
| North America | 50,124 | 46,910 |
| Europe | 6,901 | 3,049 |
| Rest of World | 1,894 | 1,124 |
| Total segment non-current assets | 58,919 | 51,083 |
| Corporate and other | 25,062 | 64,411 |
| Consolidated non-current assets | 83,981 | 115,494 |

Segment liabilities

| As at | September 30, 2015 | December 31, 2014 |
|--------------------------------|-----------------------|----------------------|
| North America | 230,720 | 130,783 |
| Europe | 31,166 | 20,288 |
| Rest of World | 17,374 | 6,980 |
| Total segment liabilities | 279,260 | 158,051 |
| Corporate and other | 22,690 | 258,959 |
| Consolidated total liabilities | 301,950 | 417,010 |

Revenues for North America include revenues attributable to Canada of \$26,324 and \$25,596 for the three month periods ended September 30, 2015 and 2014, respectively.

Non-current assets for North American include non-current assets attributable to Canada of \$37,762 for as at September 30, 2015, and \$67,485 as at December 31, 2014.

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

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

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

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18. Segment disclosures (continued)

Segment liabilities (continued)

Depreciation/Amortization by segment

| | Three months ended September 30, | | Nine months ended September 30, | |
|-------------------------------|----------------------------------|-------|---------------------------------|--------|
| | 2015 | 2014 | 2015 | 2014 |
| North America | 4,716 | 3,575 | 15,430 | 9,935 |
| Europe | 311 | 304 | 1,001 | 991 |
| Rest of World | 145 | 138 | 557 | 394 |
| Depreciation and amortization | 5,172 | 4,017 | 16,988 | 11,320 |

Revenue from major product categories

The following is an analysis of the Company's worldwide revenues from operations based on its major product categories:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|----------|---------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| Activities, games & puzzles and fun furniture | 74,537 | 59,487 | 131,181 | 105,506 |
| Remote control and interactive characters | 137,751 | 129,952 | 183,257 | 171,384 |
| Boys action and high-tech construction | 95,264 | 62,727 | 144,236 | 141,634 |
| Pre-school and girls | 131,946 | 76,818 | 236,524 | 115,814 |
| Gross product sales | 439,498 | 328,984 | 695,198 | 534,338 |
| Other revenues and sales allowances | (52,669) | (35,176) | (74,200) | (56,289) |
| Net sales | 386,829 | 293,808 | 620,998 | 478,049 |

Major customers

Sales to the Company's largest customers accounted for 58% and 64% of consolidated gross sales for the nine month periods ended September 30, 2015 and 2014 respectively, as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|----------------|----------------------------------|---------|---------------------------------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenue | | | | |
| Wal-Mart | 115,895 | 107,870 | 173,972 | 171,542 |
| Toys "R" Us | 85,099 | 55,647 | 124,968 | 92,847 |
| Target | 58,419 | 45,802 | 104,920 | 79,687 |

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Notes to the condensed consolidated interim financial statements

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

19. Events after the reporting period

On October 2, 2015, the Company completed the acquisition of Cardinal, a privately-held U.S. company headquartered in Long Island City, New York, pursuant to a share purchase agreement. Cardinal is a toy company specializing in producing and selling games and puzzles. The business combination was consummated through the acquisition of all of the issued and outstanding shares of Cardinal. The purchase price was satisfied by payment of \$50 million in cash on closing, less an indemnity escrow of \$1.25 million held for one-year after closing, with estimated contingent consideration of up to a maximum of \$19.5 million payable over five years based on Cardinal's earnings before income tax, depreciation and amortization ("EBITDA"). The Cardinal acquisition was financed through the Company's existing Credit Facility.

As of November 10, 2015, the initial accounting for the business combination is incomplete including a determination of the allocation of the purchase price, including a fair value estimate of contingent consideration, to assets and liabilities acquired. Acquisition costs are expected to be approximately \$800,000.