SPIN MASTER CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

For the three and twelve months ended December 31, 2017

The following Management's Discussion and Analysis ("MD&A") for Spin Master Corp. ("Spin Master" or the "Company") is dated March 7, 2018 and provides information concerning the Company's financial condition and financial performance for the year ended December 31, 2017, and the three months ended December 31, 2017, ("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 for the year ended December 31, 2017 and its Annual Information Form. Additional information relating to the Company can be found under the Company's profile 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 the "Forward-Looking Statements", "Financial Risk Management" and "Risks Relating to Spin Master's Business" sections of this MD&A 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 the "Risks Relating to Spin Master's Business" section and elsewhere in this MD&A.

BASIS OF PRESENTATION

The financial statements and accompanying notes of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). However, certain financial measures contained in this MD&A are non-IFRS measures and are discussed further in the "Non-IFRS Financial Measures" section of this MD&A. All financial information is presented in United States dollars ("$", "dollars" and "USD") and has been rounded to the nearest thousand, except per share amounts and where 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, entertainment and digital content.

Spin Master has successfully increased its revenue from $879,406 in 2015 to $1,551,324 in 2017. Over the same period, Gross Product Sales (a non-IFRS measure) have increased from $982,693 to $1,657,028, a 29.9% compound annual growth rate. The Company's Gross Product Sales have grown at a 13.0% 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 $800,456 in 2017 (representing 51.6% of revenue) and Adjusted EBITDA (a non-IFRS measure) of $292,193, or 18.8% of revenue, in 2017.

Spin Master's principal strategies to drive 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 three geographic segments: North America, comprised of the U.S. and Canada; Europe, comprised of the UK, France, Italy, the Netherlands, Germany, Austria, Switzerland, Belgium, Luxembourg, Slovakia and Poland; and the Rest of World, comprised of Mexico and all other areas of the world serviced by Spin Master's third party distribution network.

Spin Master’s diversified portfolio of children’s products, brands and entertainment properties is reported under five business segments: (1) Activities, Games & Puzzles and Fun Furniture; (2) Remote Control and Interactive Characters; (3) Boys Action and High-Tech Construction; (4) Pre-School and Girls and (5) Outdoor.

Selected Financial Information

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

(all amounts in USD 000's, except percentages)	Year ended December 31		
	2017	2016	2015
Earnings Results			
Gross Product Sales (1) By Segment			
Activities, Games and Puzzles and Fun Furniture	365,378	337,768	231,433
Remote Control and Interactive Characters	593,355	282,777	233,294
Boys Action and High Tech Construction	112,102	154,454	192,304
Pre-School and Girls	493,069	460,484	325,662
Outdoor	93,124	19,075	—
Gross Product Sales (1)	**1,657,028**	**1,254,558**	**982,693**
Other revenue	85,792	47,940	19,217
Total Gross Sales (1)	**1,742,820**	**1,302,498**	**1,001,910**
Sales allowances (1)	191,496	148,044	122,504
Revenue	**1,551,324**	**1,154,454**	**879,406**
Cost of goods sold	750,868	557,712	420,486
Gross profit	**800,456**	**596,742**	**458,920**
Gross Margin	*51.6%*	*51.7%*	*52.2%*
Selling, marketing, distribution and product development	312,186	243,689	183,791
Administrative expenses	262,066	201,008	195,909
Other expenses (income)	6,700	35	(13,429)
Foreign exchange (gain) loss	(11,370)	5,530	6,477
Finance costs	10,445	8,601	6,539
Income before income tax expense	**220,429**	**137,879**	**79,633**
Income tax expense	59,363	38,364	32,559
Net income	**161,066**	**99,515**	**47,074**
Net income attributable to:			
Owners of the Company	161,066	99,515	43,213
Non-Controlling interests	—	—	3,861
Net income	**161,066**	**99,515**	**47,074**

Note:

1) See "Non-IFRS Financial Measures"

Net Earnings from operations **(all amounts in USD 000's, except for EPS and percentages)**	**Year ended December 31** **2017**	**2016**	**2015**
Net income attributable to Owners of the Company	161,066	99,515	43,213
Earnings per share attributable to common shareholders (3)			
Basic and diluted EPS	$ 1.58	$ 0.99	$ 0.48
Other Financial Data			
EBITDA (1)	275,782	176,970	109,049
Adjusted EBITDA (1)	292,192	205,511	160,449
Adjusted EBITDA Margin	*18.8%*	*17.8%*	*18.2%*
Adjusted Net Income (1)	172,997	120,115	98,609
Adjusted Net Income attributable to Owners of the Company (1)	172,997	120,115	94,748
Adjusted Earnings Per Share (1) (3)			
Adjusted basic and diluted EPS (1)	$ 1.70	$ 1.19	$ 1.04
Balance Sheet and Cash Flow Data			
Cash	117,262	99,416	45,713
Total assets	938,385	775,596	388,283
Total non - current liabilities	13,810	18,584	56,749
Loans and borrowings	531	158,145	50,310
Loans from related parties	—	—	40
Total debt	531	158,145	50,350
Net Debt (2)	(116,731)	58,729	4,637
Total shareholders' equity	500,082	325,679	156,319
Cash provided by operating activities	267,405	73,038	55,639
Cash used in investing activities	(81,598)	(172,273)	(93,573)
Cash (used in) provided by financing activities	(161,485)	155,467	(11,541)

Notes:

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 month period ended December 31, 2017, compared to the same period in 2016:
(all amounts in USD 000's, except per share)

- Revenue increased by 30.3% from $338,377 to $440,863 in 2017. In Constant Currency terms (a non-IFRS measure), revenue increased by 27.6%.
- Gross profit as a percentage of revenue was 51.9%, an increase of 1.1% from 50.8%.
- Net income was $20,040 or $0.21 per share compared to a net income of $2,727 or $0.03 per share.
- Adjusted EBITDA (a non-IFRS measure) was $47,343 or 10.7% of revenue, compared to $22,888 or 6.8% of revenue.
- On November 30, 2017, the Company acquired certain assets related to the *Perplexus* brand, from Michael McGinnis, Klitsner Industrial Design Group and Busy Life LLC., for approximately $9,000. Spin Master has distributed Perplexus since 2013 and with this recent transaction, Spin Master will now own the global intellectual property rights to the *Perplexus* brand. *Perplexus* is included in the Activities, Games and Puzzles and Fun Furniture business segment.

Highlights for the twelve month period ended December 31, 2017, compared to the same period in 2016:
(all amounts in USD 000's, except per share)

- Revenue increased by 34.4% to $1,551,324 from $1,154,454. In Constant Currency terms (a non-IFRS measure), revenue increased by 33.7%.
- Gross profit as a percentage of revenue was 51.6%, a decrease of 0.1% from 51.7%.
- Net income was $161,066 or $1.58 per share compared to $99,515 or $0.99 per share.
- Adjusted EBITDA was $292,192 or 18.8% of revenue, compared to $205,511 or 17.8% of revenue.
- On April 28, 2017, Spin Master acquired certain assets of *Marbles*, a manufacturer of brain-building and high-quality games for approximately $4,700. The purchase consideration was funded from internal cash resources. The *Marbles* portfolio is included in the Activities, Games and Puzzles and Fun Furniture business segment.
- On May 24, 2017, the three founders of the Company completed a public offering of 3,681,000 subordinate voting shares of the Company at a price of Canadian Dollars ("CDN") CDN$40.75 (USD $30.21) per share, for aggregate gross proceeds to the selling shareholders of CDN$150,000 (USD $111,193). To satisfy the sale, the selling shareholders converted in aggregate 3,861,000 multiple voting shares into subordinate voting shares on a one-for-one basis. The Company did not receive any proceeds from the sale of subordinate voting shares associated with this offering.
- On July 28, 2017, the Company acquired certain assets of Aerobie Inc., a leading manufacturer of outdoor flying disks and sports toys, for $10,700. The purchase consideration was financed from internal cash resources. The *Aerobie* portfolio is managed by Swimways as part of the *Coop* family of outdoor leisure products and is reported in the Outdoor business segment. Aerobie was founded in Palo Alto, CA in 1984 and focuses on creating high performance flying toys, resulting in the ground-breaking flying ring format. The *Aerobie* portfolio of flying discs includes the *Pro Ring*, *Superdisc* and *Sprint Ring* and the *Orbiter Boomerang*.
- On September 18, 2017, Toys "R" Us Inc. ("TRU") announced that certain of its U.S. subsidiaries have voluntarily filed for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Eastern District of Virginia in Richmond, VA. In addition, TRU's Canadian subsidiary filed to seek protection in parallel proceedings under the CCAA in the Ontario Superior Court of Justice. TRU's operations outside of the U.S. and Canada, including its approximately 255 licensed stores and joint venture partnership in Asia, which are separate entities, were not part of the Chapter 11 filing and CCAA proceedings. TRU has subsequently received a commitment for debtor-in-possession ("DIP") financing. TRU's Chapter 11 and CCAA filings have resulted in a non-recurring bad debt expense of $5,400 for the year ended December 31, 2017. This amount represents the co-insurance portion of the claim under various credit insurance policies in place for the pre-petition receivables.

Subsequent event

On February 28, 2018, the Company signed an agreement to acquire certain assets relating to the Gund line of business from Enesco LLC for $79,100. Gund is a manufacturer and distributor of plush toys and is best known for its' line of teddy bears. Established in 1898, Gund has a 120-year history as a market leader and toy industry pioneer widely known for its high quality and innovative design. Headquartered in Edison, New Jersey, Gund distributes product throughout the United States, Canada, Europe, Japan, Australia and South America. The acquisition will allow Spin Master to build a stable platform for expansion into the infant toy and specialty gift categories and further grow the business internationally. Gund will be included in the Activities, Games and Puzzles and Fun Furniture business segment. The purchase consideration will be funded from internally generated cash resources and the Company's existing Credit Facility. The acquisition is expected to close on April 1, 2018.

FINANCIAL PERFORMANCE

For the three and twelve months period ended December 31, 2017 compared to the three and twelve months period ended December 31, 2016:

Consolidated Results

The following tables provide a summary of Spin Master's consolidated results for the three and twelve months period ended December 31, 2017 and 2016.

	Three Months Ended December 31			
(All amounts in USD 000's)	**2017**	**2016**	**$ Change**	**% Change**
Revenue	440,863	338,377	102,486	30.3 %
Cost of sales	212,000	166,373	45,627	27.4 %
Gross profit	**228,863**	**172,004**	**56,859**	**33.1 %**
Selling, marketing, distribution and product development	132,495	104,551	27,944	26.7 %
Administrative expenses	67,364	55,417	11,947	21.6 %
Other income	(1,329)	(223)	(1,106)	496.0 %
Foreign exchange loss	2,866	6,634	(3,768)	(56.8)%
Finance costs	2,584	2,414	170	7.0 %
Income before income tax expense	**24,883**	**3,211**	**21,672**	**674.9 %**
Income tax expense	4,843	484	4,359	900.6 %
Net income	**20,040**	**2,727**	**17,313**	**634.9 %**

	Year ended December 31			
(All amounts in USD 000's)	**2017**	**2016**	**$ Change**	**% Change**
Revenue	1,551,324	1,154,454	396,870	34.4 %
Cost of sales	750,868	557,712	193,156	34.6 %
Gross profit	**800,456**	**596,742**	**203,714**	**34.1 %**
Selling, marketing, distribution and product development	312,186	243,689	68,497	28.1 %
Administrative expenses	262,066	201,008	61,058	30.4 %
Other expenses	6,700	35	6,665	19,042.9 %
Foreign exchange (gain) loss	(11,370)	5,530	(16,900)	(305.6)%
Finance costs	10,445	8,601	1,844	21.4 %
Income before income tax expense	**220,429**	**137,879**	**82,550**	**59.9 %**
Income tax expense	59,363	38,364	20,999	54.7 %
Net income	**161,066**	**99,515**	**61,551**	**61.9 %**

Revenue

For the Three Months ended December 31, 2017

The following table provides a summary of Spin Master's revenue and segmented breakdown for the three months ended December 31, 2017 and 2016:

	Three Months Ended December 31			
(All amounts in USD 000's)	**2017**	**2016**	**$ Change**	**% Change**
Activities, Games & Puzzles and Fun Furniture	131,443	109,512	21,931	20.0 %
Remote Control and Interactive Characters	198,706	92,566	106,140	114.7 %
Boys Action and High-Tech Construction	36,714	34,765	1,949	5.6 %
Pre-School and Girls	102,414	125,133	(22,719)	(18.2)%
Outdoor	14,588	14,202	386	2.7 %
Gross Product Sales (1)	**483,865**	**376,178**	**107,687**	**28.6 %**
Other revenue	30,034	12,281	17,753	144.6 %
Total Gross Sales (1)	**513,899**	**388,459**	**125,440**	**32.3 %**
Sales allowances (1)	73,036	50,082	22,954	45.8 %
Revenue	**440,863**	**338,377**	**102,486**	**30.3 %**

(1) Non-IFRS measure. See "Non-IFRS Financial measures".

Gross Product Sales increased by $107,687, or 28.6%, to $483,865 with a favourable impact from changes in foreign exchange rates of $10,294.

Gross Product Sales in the Activities, Games & Puzzles and Fun Furniture increased by $21,931, or 20.0% to $131,443, driven by sales of *Cool* branded products*, Doctor Dreadful, Etch A Sketch, Kinetic Rock* and Spin Master's games portfolio, which includes *Cardinal* and *Marbles*, offset in part by decreases in *Marshmallow Furniture.*

Gross Product Sales in the Remote Control and Interactive Characters segment increased by $106,140 or 114.7% to $198,706, driven by sales of *Hatchimals* and *Luvabella* offset by decreases in *Zoomer* and *Air Hogs.*

Gross Product Sales in the Boys Action and High-Tech Construction segment increased by $1,949 or 5.6% to $36,714 due to higher sales of *Star Wars* licensed merchandise such as BB8 and *Tech Deck,* partially offset by decreased sales of *Secret Life of Pets* products. Sales of *Meccano* were consistent with the prior year.

Gross Product Sales in the Pre-School and Girls segment decreased by $22,719 or 18.2% to $102,414, driven by decreased sales of*, Brightlings, Power Puff Girls and Chubby Puppies.*

Gross Product Sales in the Outdoor segment comprised the sales of Swimways products under the *Swimways, Kelysius* and *Coop* brands, which the Company acquired on August 2, 2016. Gross Product Sales in the Outdoor segment increased by $386 or 2.7% to $14,588.

Other Revenue increased by $17,753 or 144.6% to $30,034, driven by increased royalty income from products marketed by third parties using Spin Master's owned intellectual property, increased television distribution income and app revenue from Toca Boca and Sago Mini.

Sales allowances increased by $22,954 or 45.8% to $73,036, primarily driven by increased Gross Product Sales as well as product and market mix. As a percentage of Gross Product Sales, Sales allowances increased 1.8% to 15.1% from 13.3% in 2016.

The following table provides a summary of Spin Master's Gross Product Sales by geographic segment for the three month periods ended December 31, 2017 and 2016:

	Three Months Ended December 31			
(All amounts in USD 000's)	**2017**	**2016**	**$ Change**	**% Change**
North America	286,603	245,363	41,240	16.8%
Europe	125,898	93,949	31,949	34.0%
Rest of World	71,364	36,866	34,498	93.6%
Gross Product Sales (1)	**483,865**	**376,178**	**107,687**	**28.6%**

(1) Non-IFRS measure. See "Non-IFRS Financial measures".

Gross Product Sales in North America increased by $41,240 or 16.8% to $286,603 with a favourable impact from changes in foreign exchange rates of $887. Growth was driven by sales of *Hatchimals, Cardinal Games* and *Star Wars* licensed merchandise such as BB8, more than offsetting declines in *Air Hogs* and *Zoomer.*

Gross Product Sales in Europe increased by $31,949 or 34.0% to $125,898, with a favourable impact from changes in foreign exchange rates of $8,149. Growth was primarily driven by sales of *Hatchimals* and increased sales of *PAW Patrol* in Germany, Austria and Switzerland.

Gross Product Sales in the Rest of World region increased by $34,498 or 93.6% to $71,364, with a favourable impact from changes in foreign exchange rates of $1,258. Growth was primarily driven by increases in *Hatchimals* partially offset by decreases in sales to third party distributors.

For the year ended December 31, 2017

The following table provides a summary of Spin Master's revenue and segmented breakdown for the twelve months ended December 31, 2017 and 2016:

	Year ended December 31			
(All amounts in USD 000's)	**2017**	**2016**	**$ Change**	**% Change**
Activities, Games and Puzzles and Fun Furniture	365,378	337,768	27,610	8.2 %
Remote Control and Interactive Characters	593,355	282,777	310,578	109.8 %
Boys Action and High-Tech Construction	112,102	154,454	(42,352)	(27.4)%
Pre-School and Girls	493,069	460,484	32,585	7.1 %
Outdoor	93,124	19,075	74,049	388.2 %
Gross Product Sales (1)	**1,657,028**	**1,254,558**	**402,470**	**32.1 %**
Other revenue	85,792	47,940	37,852	79.0 %
Total Gross Sales (1)	**1,742,820**	**1,302,498**	**440,322**	**33.8 %**
Sales allowances (1)	191,496	148,044	43,452	29.4 %
Revenue	**1,551,324**	**1,154,454**	**396,870**	**34.4 %**

(1) Non-IFRS measure. See "Non-IFRS Financial measures".

Gross Product Sales increased by $402,470, or 32.1%, to $1,657,028 with a favourable impact from changes in foreign exchange rates of $9,500.

Gross Product Sales in the Activities, Games and Puzzles and Fun Furniture segment increased by $27,610 or 8.2% to $365,378, primarily driven by increases in *Kinetic Rock, Cool* branded products, *Etch A Sketch* and Spin Master's games portfolio, which includes *Cardinal* and *Marbles,* offset by decreases in *Bunchems, Kinetic Sand, Kinetic Foam* and *Marshmallow Furniture*.

Gross Product Sales in the Remote Control and Interactive Characters segment increased by $310,578 or 109.8% to $593,355, primarily due to higher sales of *Hatchimals* and *Luvabella,* which offset declines in *Air Hogs* and *Zoomer*.

Gross Product Sales in the Boys Action and High-Tech Construction segment decreased by $42,352 or 27.4% to $112,102 primarily as a result of declines in *Secret Life of Pets, Spy Gear* and *Angry Birds* licensed toys, *Minecraft* and *Meccano,* partially offset by increased sales of *Pirates of the Caribbean* and *Star Wars* licensed merchandise such as BB8, as well as *Tech Deck.*

Gross Product Sales in the Pre-School and Girls segment increased by $32,585 or 7.1% to $493,069, driven by increased sales of *PAW Patrol* and *Rusty Rivets,* and offset by declines in *Brightlings, Chubby Puppies* and *Power Puff Girls* licensed products.

Gross Product Sales in the Outdoor segment were comprised of the sales of Swimways products under the *Swimways*, *Kelysius* and *Coop* brands, which the Company acquired on August 2, 2016. As the Outdoor segment was formed on August 2, 2016 following the acquisition of Swimways, there was a full year of contribution to Gross Product Sales from the Outdoor segment in 2017, compared to five months in 2016.

Other revenue increased by $37,852 or 79.0%, to $85,792, driven by increased television distribution income, increased royalty income from products marketed by third parties using Spin Master's owned intellectual property and app revenue from Toca Boca and Sago Mini.

Sales allowances increased by $43,452 or 29.4% to $191,496, driven primarily by higher Gross Product Sales. Sales allowances as a percentage of Gross Product Sales decreased slightly by 0.2% to 11.6% from 11.8% in 2016.

The following table provides a summary of Spin Master's Gross Product Sales by geographic segment for the twelve months ended December 31, 2017 and 2016:

	Year ended December 31			
(All amounts in USD 000's)	**2017**	**2016**	**$ Change**	**% Change**
North America	1,082,709	847,278	235,431	27.8%
Europe	368,009	271,130	96,879	35.7%
Rest of World	206,310	136,150	70,160	51.5%
Total Gross Product Sales (1)	**1,657,028**	**1,254,558**	**402,470**	**32.1%**

(1) Non-IFRS measure. See "Non-IFRS Financial measures".

Gross Product Sales in North America increased by $235,431 or 27.8% to $1,082,709 with a favourable impact from changes in foreign exchange rates of $1,183. Growth was driven primarily by increases in product sales of *Hatchimals, PAW Patrol, Luvabella* and *Star Wars* licensed merchandise such as BB8, which more than offset declines in *Secret Life of Pets, Air Hogs, Zoomer* and *Chubby Puppies.*

Gross Product Sales in Europe increased by $96,879 or 35.7% to $368,009 with a favourable impact from changes in foreign exchange rates of $6,451. Growth was primarily driven by higher sales of *PAW Patrol, Hatchimals* and increased sales of *LuvaBella* in the UK as well as increased sales of *Bunchems* in France and the Benelux region.

Gross Product Sales in the Rest of World region increased by $70,160 or 51.5% to $206,310 with a favourable impact from changes in foreign exchange rates of $1,866. The increases were primarily driven by increases in *Hatchimals,* which offset declines in *Zoomer, Kinetic Sand* and *Bunchems* as well as licensed products such as *Secret Life of Pets*, *Angry Birds* and *Teenage Mutant Ninja Turtles*.

Gross Profit

(All amounts in USD 000's)	Three Months Ended December 31 2017	2016	$ Change	% Change
Gross profit	**228,863**	**172,004**	**56,859**	**33.1%**
Gross profit as % of revenue	51.9%	50.8%		—

For the three months ended December 31, 2017, gross profit increased by $56,859 or 33.1% to $228,863. As a percentage of revenue, gross profit increased to 51.9% from 50.8%.

(All amounts in USD 000's)	Year ended December 31 2017	2016	$ Change	% Change
Gross profit	**800,456**	**596,742**	**203,714**	**34.1%**
Gross profit as % of revenue	51.6%	51.7%		

For the twelve months ended December 31, 2017, gross profit increased by $203,714 or 34.1% to $800,456. As a percentage of revenue, gross margin decreased slightly from 51.7% to 51.6%, primarily due to product mix related to acquisitions and foreign exchange, offset by increases in gross margin from owned intellectual property products and increased licensing and merchandising revenues.

Selling, Marketing, Distribution and Product Development Expenses

(All amounts in USD 000's)	Three Months Ended December 31 2017	2016	$ Change	% Change
Marketing expenses	**70,205**	**61,879**	8,326	13.5%
Marketing expenses as a % of revenue	15.9%	18.3%		
Product development expenses	**7,539**	**7,147**	392	5.5%
Product development expenses as a % of revenue	1.7%	2.1%		
Selling expenses	**36,765**	**22,807**	13,958	61.2%
Selling expenses as a % of revenue	8.3%	6.7%		
Distribution expenses	**17,986**	**12,718**	5,268	41.4%
Distribution expenses as a % of revenue	4.1%	3.8%		
Total	**132,495**	**104,551**	27,944	26.7%

Marketing expenses increased by $8,326 or 13.5%, to $70,205, primarily as a result of increased media spending to drive higher sales as well as increased spending on promotions, research and merchandising. Marketing expenses as a percentage of revenue decreased to 15.9% from 18.3% in 2016.

Product development expenses increased by $392 or 5.5%, to $7,539, related to the timing of projects primarily in the Remote Control and Interactive Characters and Boys Action and High-Tech Construction business segments.

Selling expenses increased by $13,958, or 61.2%, to $36,765. Selling expenses as a percentage of revenue increased to 8.3% from 6.7% in 2016.

Distribution expenses increased by $5,268 or 41.4% to $17,986, driven by increased domestic sales volume primarily in Europe as well as on-going efforts to rationalize the Company's supply chain as the Company continues to position itself for growth.

	Year ended December 31			
(All amounts in USD 000's)	2017	2016	$ Change	% Change
Marketing expenses	**128,713**	**112,339**	16,374	14.6%
Marketing expenses as a % of revenue	8.3%	9.7%		
Product development expenses	**23,365**	**22,017**	1,348	6.1%
Product development expenses as a % of revenue	1.5%	1.9%		
Selling expenses	**106,471**	**77,102**	29,369	38.1%
Selling expenses as a % of revenue	6.9%	6.7%		
Distribution expenses	**53,637**	**32,231**	21,406	66.4%
Distribution expenses as a % of revenue	3.5%	2.8%		
Total	**312,186**	**243,689**	68,497	28.1%

Marketing expenses increased by $16,374 or 14.6%, to $128,713, primarily as a result of increased media spending to drive higher sales as well as increased spending on promotion, research and strategic marketing spend. As a percentage of revenue, marketing expenses decreased to 8.3% from 9.7%.

Product development expenses increased by $1,348, or 6.1%, to $23,365, primarily due to investments in the Remote Control and Interactive Characters and Boys Action and High-Tech Construction business segments.

Selling expenses increased by $29,369 or 38.1%, to $106,471. As a percentage of revenue, selling expenses marginally increased to 6.9% from 6.7%.

Distribution expenses increased by $21,406, or 66.4%, to $53,637, driven by higher sales volumes, increased distribution expenses to support European growth and costs associated with integrating the logistics and supply chains of acquired companies.

Administrative Expenses

For the three months ended December 31, 2017 compared to the same period in 2016, administrative expenses increased by $11,947, or 21.6%, to $67,364. Administrative expenses as a percentage of revenue decreased to 15.3% from 16.4% in the same period in 2016. Share-based compensation expenses associated with equity participation agreements remained consistent with the prior year. Excluding the impact of share-based compensation, administrative expenses as a percentage of revenue decreased to 14.8% from 15.7% in 2016.

For the twelve months ended December 31, 2017 compared to the same period in 2016, administrative expenses increased by $61,058, or 30.4%, to $262,066, primarily due to increased expenses associated with acquired companies and the non-recurring bad debt expense related to TRU, partially offset by lower share-based compensation expense associated with the equity participation agreement at the time of the Company's initial public offering (the "IPO") and grants of restricted share units. Administrative expenses as a percentage of revenue decreased to 16.9% from 17.4% in the same period in 2016. Excluding the impact of share-based compensation, administrative expenses as a percentage of revenue increased to 16.2% from 15.6% in 2016. Excluding the impact of share-based compensation and the non-recurring bad debt expense related to TRU, administrative expenses as a percentage of revenue was 15.9% compared to 15.6%.

Finance Costs

For the three months ended December 31, 2017, finance costs increased by $170 to $2,584 compared to the same period in 2016. For the twelve months ended December 31, 2017 , finance costs increased by $1,844 to $10,445 compared to the same period in 2016. The increase was primarily driven by an increase in sales volume related bank charges and higher interest costs associated with the borrowings on the Company’s Credit Facility.

Net income

Net income for the three months ended December 31, 2017 increased by $17,313 to $20,040 from $2,727 for the same period in 2016, primarily as a result of higher revenues and a positive impact of foreign exchange offset by higher administrative expenses, increased marketing and selling expenses and an increase in distribution expense.

Excluding share-based compensation expense, foreign exchange losses and other non-recurring items, Adjusted Net Income (a non-IFRS measure, see “Non-IFRS financial measures”) for the three months ended December 31, 2017 increased by $16,165 to $25,512 from $9,347 for the same period in 2016.

Net income for the year ended December 31, 2017 increased by $61,551 to $161,066 from $99,515 for the same period in 2016. Excluding share-based compensation expense, restructuring and foreign exchange gains, Adjusted Net Income for the year ended December 31, 2017 increased by $52,882 to $172,997 from $120,115 for the same period in 2016.

OUTLOOK

For 2018, Spin Master expects its organic Gross Product Sales growth rate to be in the mid to high single digits range compared to 2017. From a seasonality perspective, Spin Master expects Gross Product Sales in the first half of 2018 to be in the range of 32-35% of full year Gross Product Sales compared to approximately 30% in the past. Adjusted EBITDA Margin for 2018 is expected to be consistent with 2017.

SELECTED QUARTERLY FINANCIAL INFORMATION

Seasonality factors cause Spin Master’s operating results to fluctuate significantly from quarter to quarter. A majority of the Company’s annual sales occur during the third and fourth quarters of the Company’s fiscal year with a significant portion of its net income earned during the same period.

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

	Three Months Ended							
(All amounts in USD 000's except EPS)	**Dec 31, 2017**	**Sep 30, 2017**	**Jun 30, 2017**	**Mar 31, 2017**	**Dec 31, 2016**	**Sep 30, 2016**	**Jun 30, 2016**	**Mar 31, 2016**
Revenue	440,863	606,098	276,652	227,711	338,377	475,015	179,360	161,702
Adjusted EBITDA (1)	47,343	170,308	43,724	30,818	22,888	133,261	25,389	23,973
Adjusted EBITDA margin (1)	10.7%	28.1%	15.8%	13.5%	6.8%	28.1%	14.2%	14.8%
Net income	20,040	108,825	22,114	10,087	2,727	83,253	3,598	9,937
Basic and diluted EPS	$0.21	$1.07	$0.22	$0.10	$0.03	$0.82	$0.04	$0.10
Adjusted Net Income (1)	25,512	111,711	22,217	13,557	9,347	87,482	11,698	11,588
Basic and diluted adjusted EPS (1)	$0.25	$1.10	$0.22	$0.13	$0.09	$0.86	$0.12	$0.12
Free cash flow (1)	18,439	145,169	24,835	4,998	(3,881)	117,238	(11,026)	16,359

1) See “Non-IFRS Financial Measures"

The following table provides reconciliations of net income to EBITDA, Adjusted EBITDA and Adjusted Net Income.

	Three Months Ended							
(All amounts in USD 000's)	**Dec 31, 2017**	**Sep 30, 2017**	**Jun 30, 2017**	**Mar 31, 2017**	**Dec 31, 2016**	**Sep 30, 2016**	**Jun 30, 2016**	**Mar 31, 2016**
Net income	**20,040**	**108,825**	**22,114**	**10,087**	**2,727**	**83,253**	**3,598**	**9,937**
Finance costs	2,584	2,558	2,439	2,864	2,414	2,575	1,852	1,760
Depreciation and amortization	12,422	12,670	10,602	9,214	8,173	9,420	7,526	5,371
Income tax	4,843	42,233	8,431	3,856	484	32,319	1,056	4,505
EBITDA (1)	**39,889**	**166,286**	**43,586**	**26,021**	**13,798**	**127,567**	**14,032**	**21,573**
Normalization adjustments								
Restructuring (2)	327	167	434	752	65	828	275	656
Recovery of contingent liability (3)	—	—	—	—	(222)	—	—	—
Foreign exchange loss (gain) (4)	2,866	(5,831)	(6,706)	(1,699)	6,634	(129)	4,065	(5,040)
Share based compensation (5)	2,076	2,425	2,857	2,724	2,146	4,996	7,017	6,785
Impairment of intangible asset (6)	2,531	3,800	2,316	385	—	—	—	—
Fair market value adjustments (7)	450	—	—	2,355	—	—	—	—
Executive compensation - acquisition (8)	(840)	279	281	280	467	—	—	—
Non-recurring transaction costs (9)	44	—	956	—	—	—	—	—
Non-recurring bad debt expense (10)	—	5,382	—	—	—	—	—	—
Non-recurring royalty recovery (11)	—	(2,200)	—	—	—	—	—	—
Adjusted EBITDA (1)	**47,343**	**170,308**	**43,724**	**30,818**	**22,888**	**133,262**	**25,389**	**23,973**
Finance costs	2,584	2,558	2,439	2,864	2,414	2,575	1,852	1,760
Depreciation and amortization	12,422	12,670	10,602	9,214	8,173	9,420	7,526	5,371
Income tax	4,843	42,233	8,431	3,856	484	32,319	1,056	4,505
Tax effect of normalization adjustments (12)	1,982	1,136	35	1,327	2,470	1,465	3,257	750
Adjusted Net Income (1)	**25,512**	**111,711**	**22,217**	**13,557**	**9,347**	**87,483**	**11,698**	**11,589**

Footnotes:

1) See "Non-IFRS Financial Measures".

2) Restructuring primarily relates to organizational changes.

3) A reversal of a portion of a contingent consideration liability 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 payout.

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 in which they occur.

5) Share 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 and share option expense.

6) Non-cash Impairment charges of intangible assets relating to Licenses, Content Development, Brands and Trademarks.

7) Amortization of Fair Market Value adjustments to inventory relating to the acquisition of Marbles and Aerobie in the second and third quarters of 2017 respectively, Swimways in the third quarter of 2016 and Cardinal in the fourth quarter of 2015.

8) Remuneration expense associated with contingent consideration for the Swimways acquisition.

9) Non-recurring transaction costs relating to Marbles acquisition in the second quarter of 2017.

10) Non-recurring bad debt expense related to the bankruptcy declaration of TRU in Canada and the United States during the third quarter of 2017.

11) Non-recurring royalty income recovery related to prior year.

12) Tax effect of normalization adjustments (Footnotes 2-11). Normalization adjustments are tax effected at the effective 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, 2017, the Company had $510 million available under its Credit Facility, which matures in December 2021. Advances under the Credit Facility may be used for general corporate purposes including refinancing existing indebtedness, funding working capital requirements, permitted acquisitions and permitted distributions.

Management believes that cash flows from its ongoing operations, plus cash on hand and availability under the Credit Facility provide sufficient liquidity to support ongoing 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 by 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 the fourth quarter. The Company's cash flows from operating activities are typically at their highest levels of the year in the fourth quarter.

The Company has separately financed $531 of the *Little Charmers* production costs. The financing of the production costs of *Little Charmers* is directly related to the expected receipt of eligible government tax credits. The Company intends to continue to use this type of borrowing to fund the costs of future television productions.

On April 28, 2017, the Company filed a final short-form base shelf prospectus, allowing the Company to offer and issue the following securities: (i) subordinate voting shares; (ii) preferred shares; (iii) senior or subordinated unsecured debt securities; (iv) subscription receipts; (v) warrants; and (vi) securities comprised of more than one of the subordinate voting shares, preferred shares, debt securities, subscription receipts and / or warrants offered together as a unit. These securities may be offered separately or together, in separate series, in amounts, at prices and on terms to be set forth in one or more shelf prospectus supplements. The aggregate initial offering price of securities that could be sold by the Company (or certain of the Company's shareholders, including the principal shareholders) pursuant to this base shelf prospectus during the 25-month period that the base shelf prospectus, including any amendments thereto, remains valid was limited to CDN$600 million.

TRU Chapter 11 and CCAA filing

On September 19, 2017, TRU announced that certain of its U.S. subsidiaries have voluntarily filed for relief under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Eastern District of Virginia in Richmond, VA. In addition, TRU's Canadian subsidiary filed to seek protection in parallel proceedings under the CCAA in the Ontario Superior Court of Justice. TRU intends to use these court-supervised proceedings to restructure its outstanding debt and establish a sustainable capital structure.

TRU's operations outside of the U.S. and Canada, including its approximately 255 licensed stores and joint venture partnership in Asia, which are separate entities, are not part of the Chapter 11 filing and CCAA proceedings.

TRU has received a commitment for over $3.0 billion in DIP financing from various lenders, including a JP Morgan-led bank syndicate and certain of TRU's existing lenders, which is expected to immediately improve TRU's financial health and support its ongoing operations during the court-supervised process.

In conjunction with the Chapter 11 process in the U.S., TRU has filed a number of customary motions with the bankruptcy court seeking authorization to support its operations during the restructuring process and ensure a smooth transition into Chapter 11 without disruption, including authority to continue payment of employee wages and benefits, honour customer programs and pay vendors and suppliers in the ordinary course for all goods provided on or after the filing date.

TRU's Chapter 11 and CCAA filings have resulted in a one-time bad debt expense of $5.4 million for the year ended December 31, 2017.

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, TV show and mobile digital 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 are mostly comprised of the purchase of tooling used in the manufacturing process and television show production.

CASH FLOW

The following table provides a summary of Spin Master's consolidated cash flows for three and twelve months ended December 31, 2017 and 2016.

	Three months ended December 31		
(All amounts in USD 000's)	**2017**	**2016**	**$ Change**
Net cash flows provided by operating activities	109,525	62,310	47,215
Net cash flows used in investing activities	(9,618)	(4,554)	(5,064)
Net cash flows used in financing activities	(30,131)	(5,260)	(24,871)
Net increase in cash	**69,776**	**52,496**	**17,280**
Effect of foreign currency exchange rate changes on cash	(2,425)	(2,607)	182
Cash at beginning of period	49,911	49,527	384
Cash at end of year	**117,262**	**99,416**	**17,846**

	Year ended December 31		
(All amounts in USD 000's)	**2017**	**2016**	**$ Change**
Net cash flows provided by operating activities	267,405	73,038	194,367
Net cash flows used in investing activities	(81,598)	(172,273)	90,675
Net cash flows (used in) provided by financing activities	(161,485)	155,467	(316,952)
Net increase in cash	**24,322**	**56,232**	**(31,910)**
Effect of foreign currency exchange rate changes on cash	(6,476)	(2,529)	(3,947)
Cash at beginning of year	99,416	45,713	53,703
Cash at end of year	**117,262**	**99,416**	**17,846**

Cash from Operating Activities

Cash flows from operating activities were $109,525 for the three months ended December 31, 2017 compared to cash flows from operating activities of $62,310 for the same period in 2016. For the twelve months ended December 31, 2017, cash flows from operating activities were $267,405 compared to $73,038 for the same period in 2016. The increase in cash from operating activities was driven by higher net income, favourable changes in net working capital and a decrease in cash interest paid. The increase in cash was partially offset by an increase in cash income taxes paid.

Investing Activities

The following table provides a summary of Spin Master's consolidated cash flows used in investing activities for the three and twelve months ended December 31, 2017 and 2016:

	Three months ended December 31		
(All amounts in USD 000's)	**2017**	**2016**	**$ Change**
Capital expenditure in property, plant and equipment			
Tooling	1,685	5,500	(3,815)
Other	3,416	2,890	526
Total capital expenditures in property, plant and equipment	**5,101**	**8,390**	**(3,289)**
Intangible Assets			
Brands, licenses and trademark acquisitions	—	(1)	1
Content development	(4,570)	(4,547)	(23)
Computer software	41	722	(681)
Total capital expenditures in intangible assets	**(4,529)**	**(3,826)**	**(703)**
Total capital expenditures	**572**	**4,564**	**(3,992)**
Disposals	—	(10)	10
Business acquisition (net of cash received)	9,046	—	9,046
Cash used in investing activities	**9,618**	**4,554**	**5,064**

	Year ended December 31		
(All amounts in USD 000's)	**2017**	**2016**	**$ Change**
Capital expenditure in property, plant and equipment			
Tooling	19,505	19,574	(69)
Other	6,413	4,462	1,951
Total capital expenditures in property, plant and equipment	**25,918**	**24,036**	**1,882**
Intangible Assets			
Brands, licenses and trademark acquisitions	—	62	(62)
Content development	30,109	15,390	14,719
Computer software	1,155	2,090	(935)
Total capital expenditures in intangible assets	**31,264**	**17,542**	**13,722**
Total capital expenditures	**57,182**	**41,578**	**15,604**
Disposals	—	(10)	10
Business acquisition (net of cash received)	24,416	130,705	(106,289)
Cash used in investing activities	**81,598**	**172,273**	**(90,675)**

Cash used in investing activities were $9,618 for the three months ended December 31, 2017 compared to $4,554 for the same period in 2016. The increase in cash flows used in investing activities was driven primarily by higher cash flows used for business acquisitions, offset in part by decreased investment in capital expenditures in property, plant and equipment and the Company receiving tax credits associated with the production of television programming for the three months ended December 31, 2017. For the twelve months ended December 31, 2017 cash flows used in investing activities were $81,598 compared to $172,273 for the same period in 2016. The decrease in cash flows used in investing activities was primarily due to higher cash flows used for business acquisitions in the prior year, partially offset by higher investments in content development in the current year.

Financing Activities

Cash flows used in financing activities were $30,131 for the three months ended December 31, 2017 compared to f $5,260 for the for the same period in 2016. For the twelve months ended December 31, 2017, cash flows used in financing activities were $161,485 compared to cash flows provided by financing activities of $155,467 for the comparable period in 2016. Cash flows used in financing activities consist of reductions in bank indebtedness. In addition, cash flows in the prior year were driven by the issuance of subordinate voting shares pursuant to a treasury offering in the second quarter of 2016.

Free Cash Flow

The following table provides a reconciliation of Spin Master's consolidated Free Cash Flow (a non-IFRS measure) to cash from operations for the three and twelve months ended December 31, 2017 and 2016:

	Three months ended December 31		
(All amounts in USD 000's)	**2017**	**2016**	**$ Change**
Cash flows provided by operating activities	109,525	62,310	47,215
Plus:			
Changes in net working capital	(90,514)	(61,637)	(28,877)
Net cash flows provided by operating activities before working capital changes	**19,011**	**673**	**18,338**
Less:			
Cash flows used in investing activities	(9,618)	(4,554)	(5,064)
Plus:			
Cash used for License, Brand and Business Acquisitions	9,046	—	9,046
Free Cash Flow	**18,439**	**(3,881)**	**22,320**

	Year ended December 31		
(All amounts in USD 000's)	**2017**	**2016**	**$ Change**
Cash flows provided by operating activities	267,405	73,038	194,367
Plus:			
Changes in net working capital	(16,782)	87,220	(104,002)
Net cash flows provided by operating activities before working capital changes	**250,623**	**160,258**	**90,365**
Less:			
Cash flows used in investing activities	(81,598)	(172,273)	90,675
Plus:			
Cash used for License, Brand and Business Acquisitions	24,416	130,705	(106,289)
Free Cash Flow	**193,441**	**118,690**	**74,751**

Free Cash Flow was $18,439 for the three months ended December 31, 2017 compared to negative $3,881 for the same period in 2016. For the twelve months ended December 31, 2017, Free Cash Flow was $193,441 an increase of $74,751 compared to the same period in 2016. The increase in Free Cash Flow was driven by an increase in cash generated by operating activities before working capital changes, a decrease in cash flows used in investing activities and a decrease in cash used for license, brand and business acquisitions.

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 to ensure availability and timely delivery of future purchases of goods and services. 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 Spin Master's contractual commitments and obligations as at December 31, 2017, which are primarily for the leasing of offices and related office equipment and minimum guarantees due to licensor's. The leases have been entered into with terms of between two and ten years in length and minimum guarantees to licensor's are primarily due within 24 months, but can extend beyond 24 months.

	Less than 1 year to greater than 5 years			
	<1 Year	**1-5 Years**	**> 5 Years**	**Total**
Lease obligations	6,832	40,859	16,231	63,922
Minimum guarantees due to licensors	47,331	—	—	47,331
Borrowings	531	—	—	531
Total commitments	**54,694**	**40,859**	**16,231**	**111,784**

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 7, 2018, there were 73,549,812 Multiple Voting Shares outstanding and 28,126,094 Subordinate Voting Shares outstanding.

As of March 7, 2018 pursuant to grants under the Company's Long-Term Incentive Plan, 325,415 Subordinate Voting Shares were issuable under outstanding Restricted Stock Units, up to 1,065,536 Subordinate Voting Shares were issuable under outstanding Performance Share Units (assuming vesting at 200%) and 552,699 Subordinate Voting shares were issuable under outstanding Share Option grants.

On May 24, 2017, the three founders of the Company completed a public offering of 3,681,000 subordinate voting shares of the Company at a price of CDN$40.75 (US$30.21) per share, for aggregate gross proceeds to the selling shareholders of CDN$150,000 (US$111,193). To satisfy the sale, the selling shareholders converted in aggregate 3,681,000 multiple voting shares into subordinate voting shares on a one-for-one basis. The Company did not receive any proceeds from the sale of subordinate voting shares associated with this offering.

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 IP rights from third-party owners. Failure of such owners to properly maintain or enforce the IP 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 IP 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 IP, in particular, those IP rights to which the Company has secured exclusive rights. Without protection for the IP 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 IP, 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 Company's 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 IP 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 IP and proprietary rights. Contractual arrangements and other steps the Company has taken to protect its IP may not prevent misappropriation of its IP or deter independent third-party development of similar products. The steps Spin Master has taken may not prevent unauthorized use of its IP, particularly in foreign countries where the Company does not hold patents or trademarks or where the laws may not protect its IP as fully as in North America. Some of Spin Master's products and product features have limited IP 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 IP 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 IP 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 IP 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 IP 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 IP 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 2017, the top three customers collectively accounted for approximately 48.8% 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 U.S. 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 programs 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 U.S. and elsewhere that may involve the Company, as well as regulatory or judicial orders or decrees in Canada, the U.S. 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 or employees 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 or pay dividends 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.

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 pre-IPO equity participation arrangements with certain current and former employees 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 pre-IPO equity participation arrangements, including on the value of the Subordinate Voting Shares received by participants. Under the pre-IPO equity 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 CRA 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 U.S. 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. While Spin Master and its third-party business partners maintain systems for preventing and detecting a breach of their respective information technology systems, Spin Master and those third parties may be unaware that a breach has occurred and may be unable to detect an ongoing breach. Spin Master has exposure to similar security risks faced by other large companies that have data stored on their information technology systems. To its knowledge, Spin Master has not experienced any material breach of its cybersecurity systems. If Spin Master's or any third-party service providers' systems fail to operate effectively or are damaged, destroyed, or shut down, or there are problems with transitioning to upgraded or replacement systems, or there are security breaches in these systems, any of the aforementioned could occur as a result of natural disasters, software or equipment failures, telecommunications failures, loss or theft of equipment, acts of terrorism, circumvention of security systems, or other cyber-attacks, Spin Master could experience delays or decreases in product sales, and reduced efficiency of its operations. 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.

An increasing portion of Spin Master's business may come from technologically advanced or sophisticated digital and smart technology products, which present additional challenges compared to more traditional toys and games.

Spin Master expects that children will continue to be interested in product offerings incorporating sophisticated technology, such as video games, consumer electronics and social and digital media, at younger and younger ages. Spin Master also expects that parents will seek to enhance child development and learning through digital technologies and analog and technology-based play.

In addition to the risks associated with Spin Master's more traditional products, sophisticated digital and smart technology products face certain additional risks. Costs associated with designing, developing and producing technologically advanced or sophisticated products tend to be higher than for many of Spin Master's more traditional products. Heavy competition in consumer electronics and entertainment products and difficult economic conditions may increase the risk of Spin Master not achieving sales sufficient to recover the increased costs associated with these products. Designing, developing and producing sophisticated digital and smart technology products requires different competencies and may follow longer timelines than traditional toys and games, and any delays in the design, development or production of these products could have a significant impact on Spin Master's ability to successfully offer such products. In addition, the pace of change in product offerings and consumer tastes in the video games, consumer electronics and social and digital media areas is potentially even greater than for Spin Master's more traditional products. This pace of change means that the window in which a technologically advanced or sophisticated product can achieve and maintain consumer interest may be shorter than traditional toys and games. These products may also present data security and data privacy risks and be subject to certain laws, government policies or regulations not applicable to more traditional products, such as the U.S. Children's Online Privacy Protection Act of 1998 and the EU Data Protection Directive (Directive 95/46/EC) and related national regulations.

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 foreign 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 foreign exchange rates ("transaction exposures") and because the non-US dollar denominated financial statements of the Company's subsidiaries may vary on translation into the US dollar presentation currency ("translation exposures"). These exposures could impact the Company's earnings and cash flows.

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

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 48% and 52% of consolidated gross product sales for the twelve month periods ended December 31, 2017 and 2016 respectively.

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, when available.

RELATED PARTY TRANSACTIONS

There were no related party transactions included in the consolidated financial statements of the Company as at December 31, 2017.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in Note 3 of the Company's fiscal 2017 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 judgments 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 ("CGU") 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 CGUs of the Company.

Functional currency

Transactions in foreign currencies are translated to the respective functional currencies of Company entities at foreign 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 depreciation methods, useful lives and residual values annually or when circumstances change and adjusts its depreciation methods and assumptions prospectively.

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 CGU 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 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

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", which replaces IAS 11 - *Construction Contracts*, IAS 18 - *Revenue* and International Financial Reporting Interpretations Committee 13 - *Customer Loyalty Programs (*"IFRIC 13"), as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; except for contracts that are within the scope of the standards on leases, insurance contracts, and financial instruments. IFRS 15 also contains enhanced disclosure requirements. The standard is effective for annual periods beginning on or after January 1, 2018.

In April 2016, the IASB published clarifications to IFRS 15 which addressed three topics (identifying performance obligations, principal versus agent considerations, and licensing) and provides some transition relief for modified contracts and completed contracts. The amendments are effective for annual periods beginning on or after January 1, 2018.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). The Company will adopt the standard using the full retrospective method to restate each prior reporting period presented.

In preparation for adoption of the standard, the Company has completed the review of relevant contracts and has concluded there will be no material transitional adjustment upon adoption and no material changes in the timing of revenue recognition is expected once adopted.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, "Financial Instruments". The new standard includes revised guidance on the classification and measurement of financial assets, including impairment, as well as new hedge accounting principles.

IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement. Under IFRS 9, all recognized financial assets that are currently within the scope of IAS 39 will be measured at either amortized cost, fair value through other comprehensive income ("FVOCI") or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial asset. All equity instruments will be measured at fair value or FVOCI. A debt instrument that has cash flows which represent solely payments of principal and interest is measured at amortized cost only if it is held to collect the contractual cash flows or FVOCI if it is held to collect and sale contractual cash flows. Otherwise it is measured at FVTPL. For financial liabilities designated as at FVTPL, the change in the fair value attributable to changes in the liability's credit risk is recognized in other comprehensive income ("OCI") unless it gives rise to an accounting mismatch in profit or loss.

IFRS 9 introduces a new expected credit loss ("ECL") model for all financial assets in scope of the impairment requirements. The new ECL will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event.

In preparation for adoption of the standard, the Company has completed its assessment of the implications of implementing the new standard and has concluded there will be no material transitional adjustment upon adoption and no material changes are expected once adopted.

IFRS 2 Share Based Payments

The IASB issued amendments to IFRS 2 "Share Based Payments". The amendment is intended to clarify the estimation of the fair value of cash settled share based payments. The amendments are effective for annual reporting periods beginning on or after January 1, 2018. The Company is evaluating the impact on its financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation addresses how to determine the date of the transaction for the purpose of determining the foreign exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The IASB has reached the consensus that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. IFRIC 22 is effective for annual reporting periods beginning on or after January 1, 2018. The Company is evaluating the impact on its financial statements.

IFRIC 23 Uncertainty over income tax treatments

In June 2017, the IASB issued IFRIC 23 to clarify how the requirements of IAS 12 Income Taxes should be applied when there is uncertainty over income tax treatments. The interpretation specifically addresses:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How and entity determine taxable profit (or loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

The interpretation is effective for annual periods beginning on or after January 1, 2019, with modified retrospective or retrospective application. The Company is currently evaluating the impact of IFRIC 23 on its financial statements.

IFRS 16 Leases

In January 2016, the IASB issued a new Lease Standard, IFRS 16. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (the customer ('lessee') and the supplier ('lessor')). IFRS 16 is effective from January 1, 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts with Customers. IFRS 16 completes the IASB's project to improve the financial reporting of leases and replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is evaluating the impact on its financial statements.

FINANCIAL INSTRUMENTS

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

As at December 31, 2017, the Company is committed under outstanding foreign exchange contracts to purchase USD, representing total purchase commitments of approximately $48,060 (2016 - $162,777).

DISCLOSURE CONTROLS AND PROCEDURES

The Co-Chief Executive Officers and the Chief Financial Officer (the "Certifying Officers") 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 effectiveness of the Company's DC&P as at December 31, 2017 and have concluded that the Company's DC&P was effective as at December 31, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Certifying Officers 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 effectiveness of the Company's ICFR as at December 31, 2017 and have concluded that the Company's ICFR was effective as at December 31, 2017.

There have been no changes in the Company's ICFR during the three-month period ended December 31, 2017 which have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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.

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, 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 finance costs, income tax expense 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 net 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 tooling expenditures) and the production of television 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 product category and geographical segment 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 as well as income from the sale of apps. 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.

Constant Currency represents Revenue and Gross Product Sales results that are presented excluding the impact from changes in foreign exchange rates. The current period and prior period results for entities reporting in currencies other than the US dollar are translated using consistent exchange rates, rather than using the actual exchange rate in effect during the respective periods. The difference between the current period and prior period results using the consistent exchange rates reflects the changes in the underlying performance results, excluding the impact from fluctuations in foreign exchange rates.

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. The Company believes that lenders, securities analysts, investors and other interested parties frequently use these non-IFRS financial measures in the evaluation of issuers.

Reconciliation Tables

The following table presents a reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted Net Income, and Cash from Operations to Free Cash Flow for the fiscal years ended December 31, 2017, 2016 and 2015:

	Year ended December 31		
(All amounts in USD 000's)	**2017**	**2016**	**2015**
Reconciliation of Non-IFRS Financial Measures			
Net income	161,066	99,515	47,074
Income tax expense	59,363	38,364	32,559
Finance costs	10,445	8,601	6,539
Depreciation and amortization	44,908	30,490	22,877
EBITDA (1)	**275,782**	**176,970**	**109,049**
Normalization Adjustments:			
Restructuring (2)	1,680	1,823	3,528
Recovery of contingent liability (3)	—	(222)	(457)
Foreign exchange (gain) loss (4)	(11,370)	5,530	6,477
Offering costs (5)	—	—	925
Share based compensation (6)	10,082	20,943	50,658
One-time income form transfer of non business related assets (7)	—	—	(9,690)
One-time service fee income (8)	—	—	(5,000)
Impairment of intangible asset (9)	9,032	—	659
One-time legal expense (10)	—	—	3,325
Amortization of fair market value adjustments (11)	2,805	—	975
Acquisition related incentive compensation (12)	—	467	—
One-time transaction costs (13)	1,000	—	—
One-time bad debt expense (14)	5,382	—	—
One-time royalty recovery (15)	(2,200)	—	—
Adjusted EBITDA (1)	**292,193**	**205,511**	**160,449**
Income tax expense (16)	59,363	38,364	21,843
Finance costs (16)	10,445	8,601	3,547
Depreciation and amortization	44,908	30,490	22,877
Tax effect of normalization adjustments (17)	4,480	7,941	13,583
Adjusted Net Income (1)	**172,997**	**120,115**	**98,608**
Cash provided by operating activities	267,405	73,038	55,640
Plus:			
Changes in net working capital	(16,782)	87,220	50,044
Cash provided by operating activities before net working capital changes	**250,623**	**160,258**	**105,684**
Less:			
Cash used in investing investing activities	(81,598)	(172,273)	(93,573)
Plus:			
Cash used for license, brand and business acquisitions	24,416	130,705	55,038
Free Cash Flow (1)	**193,441**	**118,690**	**67,149**

1) See "Non-IFRS Financial Measures".

2) 2017 and 2016 restructuring primarily related to organizational changes. 2015 restructuring primarily related to changes to the Company's executive team.

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 in which they occur.

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

6) Share 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 and share option expense.

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 assets related to content development, licenses, brands and trademarks.

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

11) Amortization of fair market value adjustments to inventory relating to the acquisition of Marbles and Aerobie in the second and third quarters of 2017 respectively, Swimways in the third quarter of 2016 and Cardinal in the fourth quarter of 2015.

12) Remuneration expense associated with contingent consideration for the Swimways acquisition.

13) One-time transaction costs relating to Marbles acquisition in the second quarter of 2017.

14) One-time bad debt expense related to the bankruptcy declaration of TRU in Canada and the United States during the third quarter of 2017.

15) One-time royalty income recovery related to the prior year.

16) Income tax expense and finance costs have been adjusted for 2015 to exclude impacts related to the settlement of certain tax matters as they are not reflective of on on-going costs of the business.

17) Tax effect of normalization adjustments (Footnotes 2-15). Normalization adjustments are 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 MD&A 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 MD&A. 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 MD&A include, without limitation, statements with respect to: the Company’s outlook for 2017 (see “Outlook”); future growth expectations; financial position, cash flows and financial performance; drivers for such growth; the expected receipt of eligible tax credits; the impact of TRU's Chapter 11 and CCAA proceedings on the Company; impact of acquisitions on future financial performance, and the successful execution of its strategies for growth; and the seasonality of financial results and performance.

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 MD&A, 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 MD&A, 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 leverage its global platform to grow sales from acquired brands; 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 intellectual property 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; and the Company founders will continue to be involved in the Company products and entertainment properties will be launched as scheduled and that the risk factors noted in this MD&A, 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 MD&A. Such risks and uncertainties include, without limitation, the factors discussed in the Company's disclosure materials, including this MD&A and the Company's most recent Annual Information Form, filed with the securities regulatory authorities in Canada and available under the Company's profile on SEDAR (www.sedar.com) 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.