SPIN MASTER CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

For the three months ended March 31, 2017

The following Management's Discussion and Analysis ("MD&A") for Spin Master Corp. ("Spin Master" or the "Company") is dated May 11, 2017 and provides information concerning the Company's financial condition and financial performance for the three months ended March 31, 2017 ("first quarter", "the quarter", "Q1"). This MD&A should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements as at and for the three months ended March 31, 2017 ("interim consolidated financial statements"), its audited Consolidated Financial Statements ("financial statements") and accompanying notes and its Annual MD&A as at and for the year ended December 31, 2016 ("Annual MD&A"). Additional information relating to the Company, including the Company's Annual Information Form for the year ended December 31, 2016, can be found at www.sedar.com.

Some of the information contained in this MD&A contains forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements". Actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those described in "Risks Relating to Spin Master's Business" in our 2016 Annual MD&A and elsewhere in our Annual MD&A and this MD&A.

BASIS OF PRESENTATION

The Company's Interim Financial Statements and accompanying notes have been prepared in accordance with International Accounting Standard 34, Interim Reporting and all financial information is 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. All references to "$" and "dollars" refer to U.S. dollars, unless otherwise indicated. Certain totals, subtotals and percentages throughout this MD&A may not reconcile due to rounding.

OVERVIEW

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

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

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

Spin Master's business is separated into three geographic segments: North America, comprised of the U.S. and Canada; Europe, comprised of Spin Master's subsidiaries in the UK, France, Italy, the Netherlands, Germany, Austria and Switzerland; and the Rest of World, comprised of Spin Master's subsidiaries in 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 categories: (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.

Highlights for the three month period ended March 31, 2017:

(In $ thousands, except per share)

- Revenue increased by 40.8% from $161,702 for the same period in 2016 to $227,711 in 2017. In Constant Currency terms (non-IFRS measure), revenue increased by 42.6%.
- Gross profit as a percentage of revenue (a non-IFRS measure) for the three months ended March 31, 2017 was 49.8%, a decrease of 3.0% from 52.8% for the same period in 2016.
- Net Income was $10,087 or $0.10 per share compared to $9,937 or $0.10 per share for the same period in 2016.
- Adjusted EBITDA (a non-IFRS measure) was $30,818 or 13.5% of revenue, compared to $23,973 or 14.8% of revenue for the same period in 2016.

Subsequent Event:

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

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

FINANCIAL PERFORMANCE

For the three months period ended March 31, 2017 compared to the three months period ended March 31, 2016.

Consolidated Results

The following tables provide a summary of Spin Master's consolidated results for the three months period ended March 31, 2017 and 2016. Refer to the Company's Interim Financial Statements for a detailed account of the Company's performance for the periods presented in the tables below.

	Three Months Ended March 31			
	2017	**2016**	**$ Change**	**% Change**
(All amounts in US$ 000's)				
Revenue	227,711	161,702	66,009	40.82 %
Cost of sales	114,384	76,326	38,058	49.86 %
Gross profit	**113,327**	**85,376**	**27,951**	**32.74 %**
Selling, marketing, distribution and product development	43,522	33,416	10,106	30.24 %
Administrative	53,927	40,801	13,126	32.17 %
Other income	770	(3)	773	n.m.
Foreign exchange gains/(losses)	(1,699)	(5,040)	3,341	(66.29)%
Finance costs	2,864	1,760	1,104	62.73 %
Net income before tax	**13,943**	**14,442**	**(499)**	**(3.46)%**
Income tax (expense)	3,856	4,505	(649)	(14.41)%
Net income	**10,087**	**9,937**	**150**	**1.51 %**
Net Income Attributable to:				
Owners of the Company	10,087	9,937	150	1.51 %
	10,087	**9,937**	**150**	**1.51 %**

Revenue

For the Three Months ended March 31, 2017

The following table provides a summary of Spin Master's consolidated sales and breakdown by category for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31			
(All amounts in US$ 000's)	**2017**	**2016**	**$ Change**	**% Change**
Activities, Games & Puzzles and Fun Furniture	47,982	49,729	(1,747)	(3.51)%
Remote Control and Interactive Characters	46,532	21,606	24,926	115.37 %
Boys Action and High-Tech Construction	13,158	22,990	(9,832)	(42.77)%
Pre-School and Girls	84,676	79,465	5,211	6.56 %
Outdoor	36,735	—	36,735	n.m.
Total Gross Product Sales (1)	**229,083**	**173,790**	**55,293**	**31.82 %**
Other Revenue	20,511	6,030	14,481	240.15 %
Total Gross Sales (1)	**249,594**	**179,820**	**69,774**	**38.80 %**
Sales Allowances	21,883	18,118	3,765	20.78 %
Revenue	**227,711**	**161,702**	**66,009**	**40.82 %**

(1) Non IFRS Measure. See "Non-IFRS Measures".

Total Gross Product Sales increased by $55,293, or 31.8%, to $229,083 with an unfavorable impact from changes in currency exchange rates of $3,507.

Gross Product Sales in the Activities, Games & Puzzles and Fun Furniture decreased by $1,747, or 3.5% to $47,982, driven by decreases in *Kinetic Sand* offset by new brands including *Rube Goldberg* and *Kinetic Rock* as well as steady growth in *Cardinal and Bunchems.*

Gross Product Sales in the Remote Control and Interactive Characters segment increased by $24,926 or 115.4% to $46,532, driven by sales of *Hatchimals* offset by a decrease in sales of *Air Hogs.*

Gross Product Sales in the Boys Action and High-Tech Construction segment decreased by $9,832 or 42.8% to $13,158 primarily due to the decline in shipments of movie related products. Initial sales of *Pirates of the Caribbean* licensed product and *Tech Deck* were more than offset by declines in *Angry Birds* and *Secret Life of Pets,* which were both launched in the first quarter.

Gross Product Sales in the Pre-School and Girls segment increased by $5,211 or 6.6% to $84,676, driven by sales of *Paw Patrol* and *PowerPuff Girls,* offset by declines in *Chubby Puppies* and *Little Charmers*.

Gross Product Sales in the Outdoor segment were related to the sales of *Swimways* products, which the company acquired on August 2, 2016.

Other Revenue increased by $14,481 or 240.15% to $20,511, primarily driven by increased licensing and merchandising royalties' income from products marketed by third parties using Spin Master's owned intellectual property and inclusion of app revenues related to the acquisition of Toca Boca and Sago Mini.

Sales Allowances increased by $3,765 or 20.78% to $21,883, primarily due to increases in Gross Product Sales and product and market mix.

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

	Three Months Ended March 31			
(All amounts in US$ 000's)	**2017**	**2016**	**$ Change**	**% Change**
North America	154,578	116,308	38,270	32.9%
Europe	50,060	35,959	14,101	39.2%
Rest of World	24,445	21,523	2,922	13.6%
Total Gross Product Sales (1)	**229,083**	**173,790**	**55,293**	**31.8%**

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

Gross Product Sales in North America increased by $38,270 or 32.9% to $154,578, with a favourable impact from changes in currency exchange rates of $161. Growth was primarily driven by sales of *Hatchimals* and *Swimways* products more than offsetting declines in *Air Hogs and Secret Life of Pets* licensed products.

Gross Product Sales in Europe increased by $14,101 or 39.2% to $50,060, with an unfavourable impact from changes in currency exchange rates of $3,273. Growth was primarily driven by sales of *Paw Patrol* and *Hatchimals*.

Gross Product Sales in the Rest of World region increased by $2,922 or 13.6% to $24,445, with an unfavourable impact from changes in currency exchange rates of $395. Growth was primarily driven by increases in *Paw Patrol* and *Hatchimals* in the International 3rd party business.

Gross Profit

	Three Months Ended March 31			
	2017	**2016**	**$ Change**	**% Change**
Gross Profit	**113,327**	**85,376**	**27,951**	**32.7%**
Gross Profit as % of Revenue	49.8%	52.8%		

For the three months ended March 31, 2017, gross profit increased by $27,951 or 32.7% to $113,327. As a percentage of revenue, gross profit decreased to 49.8% from 52.8%. Gross margin declined due to acquisitions, FX and product mix offset by increased other revenue. Excluding Swimways, gross margin was 52.6% of revenue.

Selling, Marketing, Distribution and Product Development Expenses

	Three Months Ended March 31			
	2017	**2016**	**$ Change**	**% Change**
Marketing Expenses	**11,837**	**14,133**	**(2,296)**	**(16.2)%**
Marketing Expenses as a % of Revenue	5.2%	8.7%		
Product Development Expenses	**6,388**	**3,524**	**2,864**	**81.3 %**
Product Development Expenses as a % of Revenue	2.8%	2.2%		
Selling Expenses	**14,906**	**10,386**	**4,520**	**43.5 %**
Selling Expenses as a % of Revenue	6.5%	6.4%		
Distribution Expenses	**10,391**	**5,373**	**5,018**	**93.4 %**
Distribution Expenses as a % of Revenue	4.6%	3.3%		

Marketing expenses decreased by $2,296 or 16.2%, to $11,837, primarily as a result of the timing of marketing initiatives compared to prior year.

Product development expenses increased by $2,864 or 81.3%, to $6,388, related to the timing of projects primarily in the Remote Control and Interactive Characters, Activities, Games & Puzzles and Fun Furniture and Outdoor segment.

Selling expenses increased by $4,520, or 43.5%, to $14,906, driven by sales of *Hatchimals* and *Paw Patrol*. Selling expenses as a percentage of revenue was consistent with 2016.

Distribution expenses increased by $5,018 or 93.4% to $10,391, driven by increased volume, inventory storage costs due to increased inventory levels associated with growth in Europe and acquisition of Swimways, which was acquired in August 2016.

Administrative Expenses

For the three months ended March 31, 2017 compared to the same period in 2016, administrative expenses increased by $13,126, or 32.2%, to $53,927, primarily due to administrative expenses of acquired companies partially offset by lower share-based compensation expenses associated with equity participation agreements and the grants of restricted share units to employees upon the closing of the Company's initial public offering ("IPO") of subordinate voting shares in July 2015. Administrative expenses as a percentage of revenue decreased to 23.7% from 25.2% in the same period in 2016. Excluding the impact of share-based compensation, administrative expenses as a percentage of revenue increased to 22.5% from 21.0% in 2016.

Finance Costs

For the three months ended March 31, 2017, finance costs increased by $1,104 to $2,864 compared to the same period in 2016. The variance was driven by higher interest expenses as a result of increased borrowings on the Company's Credit Facility.

Net Income

Net Income for the three months ended March 31, 2017 increased by $150 to $10,087 from of $9,937 for the same period in 2016 as a result of lower gross margin, higher finance costs, partially offset by improved operational efficiency. Excluding share-based compensation expense, foreign exchange losses and other one time items, Adjusted Net Income (a non-IFRS measure, see "Non-IFRS financial measures") for the three months ended March 31, 2017 increased by $1,969 to $13,557 from $11,588 for the same period in 2016.

OUTLOOK

The Company re-affirmed its prior outlook for 2017 provided in March 2017. Excluding Swimways, Spin Master expects organic Gross Product Sales[1] growth to be at the upper end of the Company's mid to high single digit long term organic Gross Product Sales[1] growth target range. Including Swimways, Spin Master expects Gross Product Sales[1] growth in the low teens compared to 2016. From a seasonality perspective, excluding Swimways, Spin Master expects Gross Product Sales[1] in the first half of 2017, to be in line with the Company's historical seasonality of approximately 30% in the first half of the year and 70% in the second half of the year. Including Swimways, Gross Product Sales[1] is expected to be in the 31%-33% range in the first half of 2017 due to the seasonality of Swimways' Gross Product Sales[1] profile. Adjusted EBITDA Margins[1] for 2017, excluding Swimways and Toca Boca, are expected to be slightly higher than 2016. Including Swimways and Toca Boca, Adjusted EBITDA Margins[1] are expected to be consistent with 2016.

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

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 sales annually occur during the third and fourth quarters of the Company's fiscal year with a significant portion of its Net Income occurring during the same period.

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

	Three Months Ended							
	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015
Revenue	227,711	338,377	475,015	179,360	161,702	258,408	386,829	127,702
Adjusted EBITDA (1)	30,818	22,888	133,261	25,389	23,973	13,646	118,667	17,943
Adjusted EBITDA Margin (1)	13.5%	6.8%	28.1%	14.2%	14.8%	5.3%	30.7%	14.1%
Net Income / (loss)	10,087	2,727	83,253	3,598	9,937	(13,260)	51,092	7,574
Net Income / (loss) attributable to - owners of the company	10,087	2,727	83,253	3,298	9,937	(13,260)	48,782	6,310
Earnings per share attributable to common shareholders of the company (in dollars)								
Basic and Diluted EPS (2)	$ 0.10	$0.03	$0.82	$0.04	$0.10	-$0.13	$0.52	$0.07
Adjusted Net Income / (loss) (1)	13,557	9,347	87,482	11,698	11,588	6,691	80,410	8,134
Adjusted Net Income / (loss) attributable to owners of the company (1)	13,557	9,347	87,482	11,698	11,588	6,691	78,100	6,870
Adjusted Earnings per share attributable to common shareholders of the company (in dollars)								
Basic and Diluted EPS (2)	$ 0.13	$0.09	$0.86	$0.12	$0.12	$0.07	$0.83	$0.08
Free Cash flow (1)	4,998	(3,881)	117,238	(11,026)	16,359	(6,260)	75,830	5,788

1) See “Non-IFRS Financial Measures"

2) Amounts per share give effect on a retrospective basis following the Reorganization that occurred prior to the Offering

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

	Three Months Ended							
	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015
Net Income after Tax	**10,087**	**2,727**	**83,253**	**3,598**	**9,937**	**(13,260)**	**51,092**	**7,574**
Finance Costs	2,864	2,414	2,575	1,852	1,760	4,925	922	423
Depreciation and Amortization	9,214	8,173	9,419	7,526	5,371	5,887	5,173	6,700
Income Tax	3,856	484	32,319	1,056	4,505	2,843	26,407	2,600
EBITDA (1)	**26,021**	**13,798**	**127,566**	**14,032**	**21,573**	**395**	**83,594**	**17,297**
Restructuring (2)	752	65	827	275	656	891	1,716	560
Recovery of contingent liability (3)	—	(222)	—	—	—	(457)	—	—
Foreign exchange loss (gain) (4)	(1,699)	6,634	(129)	4,065	(5,040)	529	4,396	(75)
Offering Costs (5)	—	—	—	—	—	257	65	161
Share Based Compensation (6)	2,724	2,146	4,996	7,017	6,785	7,145	43,513	—
One time income from Transfer of Non Business Related Assets (7)	—	—	—	—	—	(73)	(9,617)	—
One time Service Fee income (8)	—	—	—	—	—	—	(5,000)	—
Impairment of Intangible Asset (9)	385	—	—	—	—	659	—	—
One time Legal Expense (10)	—	—	—	—	—	3,325	—	—
Fair Market Value adjustments (11)	2,355	—	—	—	—	975	—	—
Executive compensation related to acquisition (12)	280	467	—	—	—	—	—	—
Adjusted EBITDA (1)	**30,818**	**22,888**	**133,260**	**25,389**	**23,973**	**13,646**	**118,667**	**17,943**
Finance Costs (13)	2,864	2,414	2,575	1,852	1,760	4,925	922	423
Depreciation and Amortization	9,214	8,173	9,419	7,526	5,371	5,887	5,173	6,700
Income Tax/(recovery) (13)	3,856	484	32,319	1,056	4,505	(6,643)	22,176	2,600
Tax effect of Normalization Adjustments (14)	1,327	2,470	1,465	3,257	750	2,786	9,986	86
Adjusted Net Income (1)	**13,557**	**9,347**	**87,482**	**11,698**	**11,589**	**6,691**	**80,410**	**8,134**

Footnotes:

1) See "Non-IFRS Financial Measures".

2) 2017 restructuring primarily relates to changes in line with normal course of operations. 2016 restructuring related to changes in the Company's US operations.

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

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

5) Offering Costs 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 was non income producing and did 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 in connection with the acquisition of Cardinal and services provided to Cardinal prior to the closing of the transaction on October 2, 2015.

9) Impairment of Intangible asset related to Content Development.

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

11) Amortization of Fair Market Value adjustments relating to acquisition of 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) Income tax expense /(recovery) and Finance Costs have been adjusted for 2015 to exclude Financial Impacts related to the settlement of certain tax matters as they are not reflective of ongoing costs of the business.

14) Tax effect of normalization adjustments (Footnotes 3-12). Normalization adjustments 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 March 31, 2017, the Company had $365 million available under its Credit Facility. Total capital available under the Credit Facility is $510 million which 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 funding 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 $1.5 million 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 March 6, 2017 the Company entered into a Revolving Credit Facility with a limit of $40,000 to finance television and film production. The interest rate on amounts drawn under the Facility bear interest at a variable rate referenced to the lending institution's Canadian dollar prime rate.

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

(All amounts in US$ 000's)	Three months ended March 31		
	2017	2016	$ Change
Net cash flows generated by operating activities	24,869	4,161	20,708
Net cash flows used in investing activities	(16,433)	(19,845)	3,412
Net cash flows (used in) generated by financing activities	(14,426)	26,230	(40,656)
Net increase (decrease) in cash	**(5,990)**	**10,546**	**(16,536)**
Effect of exchange rate changes on cash	1,542	(1,320)	2,862
Cash at beginning of period	99,416	45,713	53,703
Cash at end of period	**94,968**	**54,939**	**40,029**

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 TV show production.

CASH FLOW

Cash from Operating Activities

For the three months ended March 31, 2017 cash flows from operating activities were $24,869 compared to $4,161 from operating activities for the same period in 2016. The increase in cash from operating activities was driven by higher net income offset by changes in working capital driven by higher accounts receivables as a result of increased sales.

Investing Activities

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

(All amounts in US$ 000's)	Three months ended March 31		
	2017	2016	$ Change
Capital Expenditure in Property Plant and Equipment			
Tooling	3,328	1,936	1,392
Other	795	157	638
Total Capital Expenditures in Property Plant and Equipment	**4,123**	**2,093**	**2,030**
Capital Expenditure in Intangible Assets			
Brands, Licenses and trademark acquisitions	—	62	(62)
Content development	11,680	5,400	6,280
Computer software	630	301	329
Total Capital Expenditures in Intangible Assets	**12,310**	**5,763**	**6,547**
Total Capital Expenditures	**16,433**	**7,856**	**8,577**
Business Acquisition (net of cash received)	—	11,989	(11,989)
Net cash flows used in investing activities	**16,433**	**19,845**	**(3,412)**

Cash flows used in investing activities were $16,433 for the three months ended March 31, 2017 compared to $19,845 for the same period in 2016. The decrease in cash flows used in investing activities was driven primarily by an absence of business acquisitions, partially offset by higher investments in content development.

Financing Activities

Cash flows used in financing activities were $14,426 for the three months ended March 31, 2017 compared to cash flows from financing activities of $26,230 for the three months ended March 31, 2016. Cash flows used in financing activities consist of change in bank indebtedness.

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 months ended March 31, 2017:

Free Cash Flow	Three months ended March 31		
	2017	2016	$ Change
Net cash flows generated by operating activities	24,869	4,161	20,708
Changes in Working Capital	(3,438)	20,054	(23,492)
Net cash flows generated by (used in) operating activities before working capital changes	**21,431**	**24,215**	**(2,784)**
Net cash flows used in investing activities	(16,433)	(19,845)	3,412
Cash used for License, Brand and Business Acquisitions	—	11,989	(11,989)
Free Cash Flow	**4,998**	**16,359**	**(11,361)**

Free Cash Flow was positive $4,998 for the three months period ended March 31, 2017 compared to positive $16,359 for the same period in 2016. The decrease in Free Cash Flow was driven by increased investment in content development and app development resulting in a decrease in cash flows used in investing activities. Additionally, there were no business acquisitions compared to the first quarter of 2017 and movements in working capital.

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.

During the three months ended March 31, 2017, there was no material change in the table of contractual obligations specified in the Company's MD&A for the fiscal year ended December 31, 2016.

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 May 11, 2017, there were 77,230,812 Multiple Voting Shares outstanding and 24,445,309 Subordinate Voting Shares outstanding.

As of May 11, 2017 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.

CRITICAL ACCOUNTING ESTIMATES

Included in the Company's 2016 Annual Financial Statements, as well as in the Company's 2016 Annual MD&A, are the accounting policies under IFRS and estimates that are critical to the understanding of the business and to the results of operations. For the three months period ended March 31, 2017 there were no changes to the critical accounting policies and estimates of the Company from those found in the 2016 Annual MD&A.

FUTURE CHANGES IN ACCOUNTING POLICIES

There have been no changes to the Company's accounting policies from those found in our 2016 Annual MD&A, except as set forth below.

Accounting standards implemented in 2017:

In 2016, the IASB issued an amendment to IAS 7 "Statement of Cash Flows". The amendment is intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendment is effective for annual periods beginning on or after January 1, 2017 with earlier application permitted. The amendment did not have a material impact of on the Company's Interim Consolidated Financial Statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's Internal Control over Financial Reporting ("ICFR") during the three months period ended March 31, 2017 which have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

The Company's management, as permitted by securities legislation, for the three months period ended March 31, 2017, has limited the scope of its design of DC&P and ICFR to exclude controls, policies and procedures of Swimways Industries, Inc. (US Operations), which Spin Master acquired through a wholly-owned subsidiary on August 2, 2016.

Included in Spin Master's consolidated financial statements for the three months period ended March 31, 2017 are the following amounts related to Swimways Industries Inc.

Consolidated Statement of Operations:

Revenue $11,783

Net Income /(loss) $272

Consolidated Balance Sheet

Current Assets $31,869

Other Assets $3,262

Current Liabilities: $18,423

Other Liabilities : $ 0

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, IPO costs and write downs, among other items and the corresponding impact these items have on income tax expense. Management uses Adjusted Net Income to understand the underlying financial performance of the business on a consistent basis over time.

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

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

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

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.

Constant Currency represents Revenue and Gross Product Sales results that are presented excluding the impact from changes in foreign currency 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 currency exchange rates.

Reconciliation Tables

The following table presents a reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted Net Income, and Cash from (used in) Operations to Free Cash Flow for the three months ended March 31, 2017, and 2016:

	Three months ended March 31			
(in $ thousands, except percentages)	**2017**	**2016**	**$ Change**	**% Change**
Reconciliation of Non-IFRS Financial Measures				
Net income (loss)	10,087	9,937	150	1.5 %
Income tax expense (recovery)	3,856	4,505	(649)	(14.4)%
Finance costs	2,864	1,760	1,104	62.7 %
Depreciation and amortization	9,214	5,371	3,843	71.6 %
EBITDA (1)	**26,021**	**21,573**	**4,448**	**20.6 %**
Normalization Adjustments:				
Restructuring (2)	752	656	96	14.6 %
Foreign exchange loss (gain) (3)	(1,699)	(5,040)	3,341	(66.3)%
Stock Based Compensation (4)	2,724	6,784	(4,060)	(59.8)%
Impairment of Intangible Asset (5)	385	—	385	100.0 %
Amortization of fair market value adjustments (6)	2,355	—	2,355	100.0 %
Acquisition Related Incentive Compensation (7)	280	—	280	100.0 %
Adjusted EBITDA (1)	**30,818**	**23,973**	**6,845**	**28.6 %**
Income tax expense (recovery) (8)	3,856	4,505	(649)	(14.4)%
Finance costs (8)	2,864	1,760	1,104	62.7 %
Depreciation and amortization	9,214	5,371	3,843	71.6 %
Tax effect of normalization adjustments (9)	1,327	749	578	77.2 %
Adjusted Net Income (1)	**13,557**	**11,588**	**1,969**	**17.0 %**
Cash from (used in) operations	24,869	4,161	20,708	497.7 %
Changes in working capital	(3,438)	20,054	(23,492)	(117.1)%
Cash from (used in) operations before working capital changes	**21,431**	**24,215**	**(2,784)**	**(11.5)%**
Cash from (used in) investing	(16,433)	(19,845)	3,412	(17.2)%
Cash used for license, brand and business acquisitions	—	11,989	(11,989)	(100.0)%
Free Cash Flow (1)	**4,998**	**16,359**	**(11,361)**	**(69.4)%**

1) See "Non-IFRS Financial Measures".

2) 2017 and 2016 restructuring primarily related to organizational changes in the normal course of business.

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

4) 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.

5) Impairment of Intangible asset related to Content Development.

6) Amortization of Fair Market Value adjustments relating to acquisition of Swimways in the third quarter of 2016 and Cardinal Industries Inc. in the fourth quarter of 2015.

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

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

9) Tax effect of normalization adjustments (Footnotes 2-7). Normalization adjustments tax effected at the effective tax rate of the given period.

FORWARD-LOOKING STATEMENTS

Certain statements, other than statements of historical fact, contained in this press release 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 press release. 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 press release 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; impact of acquisitions on future financial performance, and the successful execution of its strategies for growth; 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 press release, 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 press release, 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 Cardinal's and Swimways' sales; 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 and that the risk factors noted below, 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 press release. Such risks and uncertainties include, without limitation, the factors discussed under "Risk Relating to Spin Master's Business" and the Company's Annual Information Form for the year ended December 31, 2016, each of which are 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.