Capital Raising Presentation

August 2017

funtastic LIMITED

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This Presentation has been prepared by Funtastic Limited (ABN 94 063 886 199) ("FUN" or "the Company") in connection with a proposed renounceable pro-rata entitlement offer ("Entitlement Offer") pursuant to which it may issue approximately 1,670,998,391 new ordinary shares in FUN ("New Shares"). The Entitlement Offer will be made under section 708AA of the Corporations Act 2001 (Cth) ("Corporations Act"), as modified by Australian Securities and Investments Commission ("ASIC") Corporations (Non-Traditional Rights Issues) Instrument 2016/84. You must read this important notice if you have been provided with and intend to read this Presentation. By accepting this Presentation, you accept that that it is provided on the terms and conditions of this notice.

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Executive Summary

Funtastic Limited ("**Funtastic**" or "**the Company**") is a leading brand builder and international distributor of toys, confectionery & snack food and various family lifestyle goods.

Entitlement Offer

- The Company is undertaking a recapitalisation via an 11-for-5 renounceable pro-rata entitlement offer ("**Entitlement Offer"** or "**Capital Raising**") to raise circa $8.2 million (before costs).
- Proceeds from the Capital Raising, together with the Debt Restructuring (as defined below), provide greater balance sheet flexibility to pursue appropriate growth strategies to enhance shareholder value.

New Strategic Direction

- Appointment of new CEO.
- Rationalisation of the international business, through a partial disposal of assets and annual cost reduction of $3.5 million.

Restructure of Debt Arrangements

- In conjunction with the Capital Raising, Funtastic has entered into an agreement with its financier, National Australia Bank ("**NAB**"), to restructure its existing debt arrangements ("**Debt Restructuring**"), which will involve:
  - Permanent reduction of $36 million in bank debt ("**Permanent Reduction**");
  - A commercial market loan of $2 million ("**CML**"), with the option to convert into a convertible note;
  - Extension of the existing $7 million trade finance facility ("**Trade Finance Facility**");
  - $4.7 million overdraft facility ("**Overdraft Facility**"); and
  - Capitalisation of circa $1 million interest on past facilities (repayable on 31 January 2018).

1. FY17 Preliminary Full Year Results and Business Outlook

FY17 Preliminary Full Year Results

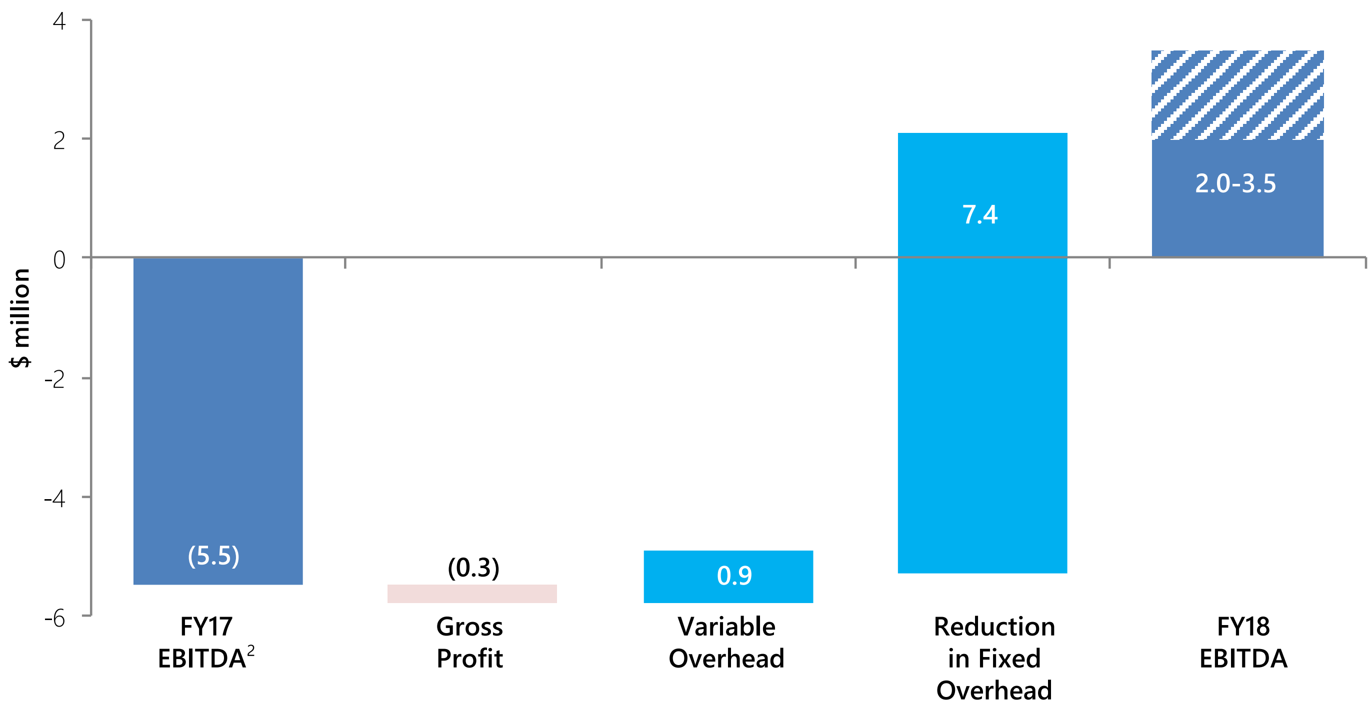
(in $millions)	FY16 Actual	FY17 Actual (unaudited and subject to finalisation)	FY18 Forecast
Revenue	88.9	55.7	-
EBITDA (excluding impairments)	**(5.3)**	**(5.5)**	**2.0 - 3.5**
One-off non-cash items (Impairment of goodwill and intangibles in FY17, and permanent debt reduction in FY18)	(6.4)	(17.1)	35.2[1]
Discontinued operations	(3.4)	(3.5)	-
Interest expense	(3.8)	(3.6)	(0.8 -1.1)
Depreciation and Amortisation	(3.5)	(1.7)	
Taxation	(1.5)	(0.8)	
Profit/(loss) after tax	**(23.9)**	**(32.2)**	**35.6 – 37.1**

- In FY17 Revenue declined by 37% due to the loss of agency brands and reduced international sales. Total overheads reduced by $7.6 million which largely offset Revenue and resultant gross margin contraction, resulting in an EBITDA loss of $5.5 million for the year.
- In FY18 Funtastic expects to deliver EBITDA in the range of $2.0 - 3.5 million driven by restructuring initiatives and significant further reductions in overheads. Funtastic's interest cost will be significantly lower due to the Permanent Reduction in debt.
- Discontinued operations include final costs associated with Madman, USA operations closure and the partial disposal of the International business.
- One-off non cash items in FY17 and FY18 reflect write-off of goodwill and intangibles, and permanent reduction of debt, all of which resulted from historical acquisitions.

1 - This is as a result of the Permanent Reduction, which will be reflected in the Company's FY18 financial statements.

Earnings Guidance[1]

- Funtastic has delivered an FY17 EBITDA[2] loss of approximately $5.5 million (unaudited).
- Funtastic forecasts delivering positive FY18 EBITDA, in the range of $2.0 - $3.5 million.[3]



Sales and gross profit forecasts for FY18 have been determined based on current base agency agreements and remaining own brands, taking into account the current market environment with improvements driven by broader distribution, higher consumer demand and improved margins (better product mix)

1. – See Appendix B for FY18 Forecast Methodology.
2. – Excludes any goodwill, intangible write-offs and discontinued operations (USA and Madman).
3 – The Directors of Funtastic consider the information and assumptions, taken as a whole and used to prepare the forecast financial information, to be appropriate and reasonable at the time of preparation. However, future matters are subject to significant uncertainties, many of which are outside the control of the Directors of Funtastic and may also not be capable of being foreseen or accurately predicted. As a result, no assurance can be given that the forecast financial information will be achieved.

Business Outlook

Funtastic expects the following business outlook for FY18:

- Funtastic sells, markets and distributes products within the Toy, Homeware, Apparel, Outdoor activity and Confectionery categories. These categories are relevant and valued by major and specialty retailers.
- The impending launch of Amazon within the Australian retail environment will create/stimulate consumption as existing retailers invest to defend their market positions.
- Opportunities to grow its own brands (Pillow Pets, Chill factor and Floaties) both domestically and internationally exists. Improved distribution and consumption opportunities exist in brands such as Razor, Beacon, Jo Jo, Superwings and Glimmies.
- Opportunities exist within the licensing category which remain a strong driver of category income.
- Divestment, refinancing and a lower cost structure will position the business to accelerate growth initiatives.
- Funtastic will build on its strong supplier relationships and sourcing competency.
- The Company expects a return to profitability in FY18.

Business Outlook (cont.)

What's been done
✓ Debt Restructure and Capital Raising for a "Match Fit" balance sheet
✓ Cost base reset – international fixed cost reduction, conversion to fully variable warehousing and headcount reduction (from 125 to 45 staff)
✓ Strategic review completed
✓ Competency, resource and structural review
✓ Part sale of international business
✓ Management restructure

Future Revenue Growth
Enhancing current licencing portfolio by re-establishing key relationships
International footprint to be reset
Strong brand/portfolio management both domestically and Internationally
Utilise new technology and on trend social opportunities
Leverage re-set cost base and balance sheet to attract new business partners for FY19

Restructuring and Cost Cutting Initiatives

- Agreed a partial sale of international business and consolidated operations to Australia
  - Reduce fixed overheads by circa $3.5 million per annum.

- Fixed cost reduction:
  - Reduced head count from circa 125 (18 months ago) to circa 45.
  - Changed fixed warehouse costs to variable, which reduced pallets spaces from over 11,000 3 years ago to circa 2,000 now.
  - Reduced office space by more than 50%, and rented at a significantly reduced rate.
  - Fixed costs reduced from $22.5 million in FY16 to circa $9 million post restructure.

- Management Changes:
  - Steven Leighton was appointed as an external consultant to undertake an independent strategic review for the Company in early 2017.
  - Subsequently Steven has been appointed as new CEO effective August 2017 with a mandate to implement the new strategic and restructure initiatives identified in his strategic review. Steven has very strong business and licensing experience, including 11 years as a senior executive at Twentieth Century Fox.
  - Nir Pizmony will remain on the Board as a Non-Executive Director.

1. Capital Raising & Debt Restructuring

Entitlement Offer – Key Details

Funtastic is undertaking a pro-rata renounceable Entitlement Offer to raise gross proceeds of approximately $8.2 million (before costs).

Size and Structure

- 11-for-5 pro-rata renounceable Entitlement Offer of ordinary shares in Funtastic.
- The Entitlement Offer is being offered to all eligible shareholders and will result in the issue of approximately 1,670,998,391 new shares ("**New Shares**").
- Entitlements will be tradeable on ASX, or otherwise transferable. As per the indicative timetable on slide 25, they are expected to be quoted and tradeable on ASX from 28 August 2017 to 5 September 2017.

Offer Price

- The offer price of $0.005 per share ("**Offer Price**") under the Entitlement Offer represents the following discounts:
  - 50% discount to last closing price on Wednesday, 23 August 2017 of $0.010
  - 24% discount to Theoretical Ex-Rights Price ("**TERP**").

Ranking

- New Shares issued under the Entitlement Offer will rank pari-passu in all regards with existing ordinary shares.

Entitlement Offer – Key Details (cont.)

Use of Proceeds

Funds raised from the Capital Raising will go towards:

- the reduction of short term interim debt funding from NAB which was advanced to the Company whilst it completed the Capital Raising and Debt Restructure. This funding was partially supported by a participation loan from Piz by Piz Pty Ltd, an entity controlled by Non-Executive Director Nir Pizmony; and
- provision of additional working capital for the Company.

Underwriting Arrangements

- Underwriting agreements have been executed with a range of institutional and sophisticated investors (including a number of existing shareholders) (**Underwriters**) to underwrite the Entitlement Offer to an amount of $8 million.
- The Underwriters that are also shareholders have provided an irrevocable commitment to participate in their pro rata share of the Entitlement Offer.
- The Entitlement Offer is supported by interests associated with Funtastic Directors Shane Tanner, Stephen Heath and Grant Mackenzie who have each undertaken to exercise their entitlements in full and have also executed underwriting agreements to underwrite a combined amount of $1.1 million.

Entitlement Offer – Key Details (cont.)

Underwriting Arrangements and control implications

- There are various possible scenarios in relation to the Entitlement Offer that may arise, each with varying impacts on the control of Funtastic.
- The outcome of these scenarios will largely depend on the extent to which Eligible Shareholders take up their Entitlements and apply for New Shares.
- However, the Entitlement Offer is structured as a pro-rata issue, which together with the entitlement trading process, reduces the potential effect of the issue of the New Shares on the control of Funtastic.
- The tables on the next slide illustrate the effect of the Entitlement Offer on the control of Funtastic where:
  - all Eligible Shareholders take up their Entitlements; and
  - where only the Underwriters that are also shareholders take up their Entitlements.

Entitlement Offer – Key Details (cont.)

All Eligible Shareholders take up their Entitlements:

- The Entitlement Offer is a pro-rata offer so that if all Eligible Shareholders take up their Entitlements, the existing voting power of all Eligible Shareholders will remain substantially the same, as the number of Ineligible Shareholders is relatively minor.

- However, if some Eligible Shareholders take up their Entitlements, Eligible Shareholders who do not take up all of their Entitlements will have their interest in Funtastic diluted.

- Shareholders should note that if they do not participate in the Offer, and as the Offer is underwritten to $8 million, their respective shareholdings could be diluted by up to approximately 69%. Examples of how the dilution may impact the Shareholders are set out in the table below:

Holder	Holding as at Record Date	% at Record Date	Entitlements under the Offer	Holdings if Offer not taken up	% post Offer
Shareholder 1	100,000,000	13.17%	220,000,000	100,000,000	4.11%
Shareholder 2	50,000,000	6.58%	110,000,000	50,000,000	2.06%
Shareholder 3	20,000,000	2.63%	44,000,000	20,000,000	0.82%

Note:

1. The table assumes that Offer, and any Shortfall, is fully subscribed.

Entitlement Offer – Key Details (cont.)

Only the Underwriters that are Eligible Shareholders take up their Entitlements:

- If none of the Shareholders other than those Shareholders who are also Underwriters take up their Entitlements, the maximum voting power of the largest Shareholder will be less than 20%.

Holder	Holding as at Record date	% at Record Date	Entitlements under the Offer	Maximum Shortfall allocation	Holdings post Offer and Shortfall	% post Offer and Shortfall allocation
Gerry Harvey Nominees Pty Ltd	40,291,274	5.30%	88,640,803	183,633,030	312,565,107	12.86%
Jason Sourasis	30,300,000	3.99%	66,660,000	91,816,515	188,776,515	7.77%
Grant Mackenzie	15,496,976	2.04%	34,093,347	91,816,515	141,406,838	5.82%
Stephen Heath	4,700,000	0.62%	10,340,000	36,726,606	51,766,606	2.13%
Shane Tanner	1,000,000	0.13%	2,200,000	73,453,212	76,653,212	3.15%

Note:

1. Table above assumes that existing Shareholders other than those who are Underwriters do not take up their Entitlements.
2. Shortfall is fully subscribed by the Underwriters in proportion to their underwriting commitments.

Entitlement Offer – Key Details (cont.)

Entitlement Trading

- Eligible Shareholders who do not wish to take up some or all of their Entitlements may sell all or part of their Entitlements on ASX from 10.00am (Melbourne time) on Monday, 28 August 2017 until 4.00pm (Melbourne time) on Tuesday, 5 September 2017, or transfer all or part of their Entitlements.
- Prices obtainable for Entitlements may rise and fall over the Entitlement trading period and will depend on many factors including the demand for and supply of Entitlements on the ASX and the value of Funtastic existing Shares relative to the Offer Price. If you sell your Entitlement, you may receive a higher or lower amount than a Shareholder who sells their Entitlement at a different time in the Entitlement trading period.
- There is a risk that a viable market for the Entitlements may not develop and Shareholders may not be able to achieve a sale of their Entitlements on the ASX.
- Entitlements may only be exercised by eligible shareholders, being persons who have a registered address in Australia or New Zealand. Persons in the United States and persons acting for the account or benefit of a person in the United States will not be eligible to purchase or trade Entitlements on ASX, or take up or exercise Entitlements purchased on ASX or transferred from another person.
- It is the responsibility of purchasers of Entitlements to inform themselves of the eligibility criteria for exercise. If holders of Entitlements after the trading period ends do not meet the eligibility criteria, they will not be able to exercise the Entitlements. In the event that holders are not able to take up their Entitlements, those Entitlements will be subscribed for by the underwriters of the Entitlement Offer.

Entitlement Offer – Key Details (cont.)

Eligible Shareholders

- Eligible Shareholders are those persons who:
  - are registered as a holder of Shares as at the Record Date;
  - have a registered address on the Funtastic share register in Australia or New Zealand;
  - are not in the United States and are not acting for the account or benefit of a person in the United States; and
  - are eligible under all applicable securities laws to receive an offer under the Entitlement Offer.
- Shareholders who are not Eligible Shareholders are Ineligible Shareholders.

Options with respect to your Entitlements

- If you are an Eligible Shareholder you may take any one of the following actions:
  - take up all or part of your Entitlement;
  - sell all or part of your Entitlement to persons meeting certain eligibility criteria:
    - on the ASX; or
    - by transferring it directly to another person; or
  - do nothing and let all or part of your Entitlement lapse.
- Full details will be included in the Offer Booklet to be released to the market by Funtastic.

Entitlement Offer – Key Details (cont.)

Option 1: Take up all or part of your Entitlement

- You may elect to purchase New Shares at the Offer Price.
- If you do not take up your Entitlement, or only take up part of your Entitlement, the balance will lapse and you will receive no benefit.
- Eligible Shareholders are not able to apply for New Shares in excess of their Entitlement as set out in their personalised Entitlement and Acceptance Form.

Option 2: Sell all or part of your Entitlement on ASX or transfer your Entitlement

- If you do not take up all or part of your Entitlement, you may be able to sell all or part of your Entitlements on the ASX through your broker or transfer your Entitlement directly to another person.
- Entitlement trading on ASX starts at 10.00am on Monday, 28 August 2017 (ASX Code: FUNR) until the close of ASX trading on Tuesday, 5 September 2017. You should allow sufficient time for your instructions to be carried out by your stockbroker. Please note you may incur brokerage if you choose to sell your Entitlement on ASX.
- If you only sell part of your Entitlement, you may choose to take up the remainder (see Option 1) or you may do nothing and let that part lapse (see Option 3 below).

Option 3: Do nothing and let all or part of your Entitlement lapse

- If you do nothing with respect to all or part of your Entitlement, the relevant portion of your Entitlement will lapse and you will receive no benefit. These Entitlements will be subscribed for by the Underwriters.
- By allowing your Entitlement to lapse, you will forgo any exposure to increases or decreases in the value of the New Shares had you taken up your Entitlement. Although you will continue to own the same number of Shares, your percentage shareholding in Funtastic will be diluted.

Underwriter Shareholding

Underwriter	Respective Proportion of underwritten amount	Percentage of Funtastic shareholding of each Underwriter if:	
		All current shareholders exercise their Entitlements	Only Underwriters that are shareholders exercise their Entitlements
Regal Funds Management Pty Ltd as trustee for the Regal Emerging Companies Fund ABN 30 107 576 821	25.00%	0.00%	15.11%
Wilson Asset Management (International) Pty Ltd ACN 081 047 118	18.75%	0.00%	11.33%
G Harvey Nominees Pty Ltd as trustee for the Harvey 1995 Discretionary Trust ACN 001 021 236	12.50%	5.30%	12.86%
Arrow Financial Group Pty Ltd ACN 138 545 696	9.38%	0.00%	5.67%
Shane Tanner and Lisa Wheeler as trustees for Tanner Superannuation Fund	5.00%	0.13%	3.15%
Heath Nominees (Aust) Pty Ltd ACN 083 018 491	2.50%	0.62%	2.13%
Northern Star Nominees Pty Ltd ACN 086 208 951	2.50%	0.00%	1.51%
Ashaw Pty Ltd as trustee for the Whitehead Superfund ABN 59 797 806 048	3.13%	0.00%	1.89%
James Newell Gordon as trustee for the JSG Nominees Family Trust ABN 56 343 835 907	2.50%	0.00%	1.51%
Jason Sourasis	6.25%	3.99%	7.77%
Liverpool Holdings Pty Ltd as trustee for the Lim Family Trust ACN 161 421 923	1.88%	0.00%	1.13%
Professional & Sophisticated Investors Pty Ltd ACN 138 753 947	2.50%	0.00%	1.51%
Bodie Investments Pty Ltd ACN 007 264 477	1.88%	0.00%	1.13%
Grant Mackenzie	6.25%	2.04%	5.82%
TOTAL	**100.00%**	**12.08%**	**72.52%**

Debt Restructuring with NAB

Funtastic has entered into an agreement of its debt facilities with NAB, under which NAB has agreed to:

- A permanent reduction of $36 million in bank debt;
- Extension of the existing $7 million Trade Finance Facility;
- A new $2 million CML, with the option to convert into a convertible note[1];
- Capitalisation of circa $1 million interest on past facilities (repayable on 31 January 2018); and
- A new $4.7 million overdraft facility.

1. NAB has the option to exchange the CML loan for a $2 million convertible note which can be converted into Funtastic shares at a conversion price of $0.007 at NAB's election

Strengthened Balance Sheet[1]

This pro-forma Balance Sheet illustrates the effect of the Capital Raising and Debt Restructuring on the balance sheet of the Company as at 31 July 2017.

BALANCE SHEET	Audited FY16	FY17 (Un-audited)	Effect of Capital Raising and Debt Restructuring	Proforma FY17
Current Assets				
Cash Assets	764	667	3,768	4,435
Receivables	8,352	2,324		2,324
Inventory and other assets	12,859	10,377		10,377
Total Current Assets	**21,975**	**13,368**	**3,768**	**17,136**
Non Current Assets				
Property, Plant and Equipment	1,455	459		459
Goodwill and Other Intangibles	21,457	4,345		4,345
Other Non-Current Assets	2,245	1,206		1,206
Total Non Current Assets	**25,157**	**6,010**		**6,010**
Total Assets	**47,132**	**19,378**	**3,768**	**23,146**
Current Liabilities				
Trade Payables	9,805	8,771		8,771
Interest Bearing Liabilities - Current	48,915	53,797	(41,097)	12,700
Other Liabilities & Provisions	5,248	5,974		5,974
Total Current Liabilities	**63,968**	**68,542**	**(41,097)**	**27,445**
Non Current Liabilities				
Interest Bearing Liabilities - Non Current	-	-	2,000	2,000
Other Liabilities & Provisions	262	132		132
Total Non Current Liabilities	**262**	**132**	**2,000**	**2,132**
Total Liabilities	64,230	68,674	(39,097)	29,577
Equity				
Contributed Equity	209,483	209,483	7,625	217,108
Retained Profits/Other Reserves	(226,581)	(258,779)	35,240	(223,539)
Total Equity	**(17,098)**	**(49,296)**	**42,865**	**(6,431)**

1 – See Appendix A for information about the basis of preparation of the Pro Forma Balance Sheet. This assumes that the bank Debt Restructure is completed in FY17

Debt Profile After Capital Raising and Debt Restructuring

The Capital Raising and Debt Restructuring will significantly reduce the Company's gearing and interest expense.

	Pre Capital Raising and Debt Restructuring ($ million)	Post Capital Raising and Debt Restructuring ($ million)	Expiry date
Overdraft	14.1	4.7	30 September 2018
Short term interim funding	4.0	-	
Capitalised interest	-	1.0	31 January 2018
Trade Finance	7.0	7.0	30 September 2018
CML	28.6	2.0	31 July 2020
TOTAL	**53.7**	**14.7**	

The weighted estimated cost of debt if facilities are fully utilised will be between 7.0%-7.5% pa

Capital Structure

- The capital structure of the Company immediately following the Entitlement Offer is expected to be as follows:

Detail	Number
Total shares on issue prior to record date	**759,544,723**
Shares to be issued under the Entitlement Offer	1,670,998,391
Total shares following completion of the Entitlement Offer	**2,430,543,114**

Key Financials	$ million
Market capitalisation at Offer Price	**12.2**
Net debt (gross debt – cash)	10.3
Enterprise value	**22.5**

Entitlement Offer - Indicative Timetable

- The indicative timetable for the Entitlement Offer is as follows[1]:

Indicative Key Dates for the Entitlement Offer	Date
Announcement of the Entitlement Offer	Wednesday,23 August 2017
Shares trade Ex Entitlement and Entitlement trading period commences	Monday, 28 August 2017
Record date for Entitlement Offer ("**Record Date**")	7.00pm (Melbourne time) on Tuesday, 29 August 2017
Offer Document and Entitlement & Acceptance Form dispatched to shareholders	Friday, 1 September 2017
Entitlement Offer opens ("**Opening Date**")	Friday, 1 September 2017
Entitlement trading period ends	4.00pm on Tuesday, 5 September 2017
Entitlement Offer closes ("**Closing Date**")	5.00pm on Tuesday, 12 September 2017
Allotment of New Shares under the Entitlement offer	Tuesday, 19 September 2017
Dispatch of holding statements for New Shares	Tuesday, 19 September 2017
Commencement of trading of New Shares on ASX	Wednesday, 20 September 2017

1 – The Company reserves the right, in consultation with the Underwriters, and subject to the Corporations Act, the Listing Rules and other applicable laws, to vary the dates of the Entitlement Offer, including extending the Closing Date of the Entitlement Offer or accepting late applications, without notice. The commencement of quotation and trading of New Shares is subject to confirmation from ASX.

Investment Highlights

- Strategic repositioning allows the Company to focus on its core capabilities as a leading supplier of superior brands, both Company-owned and licensed.

- Strengthened balance sheet provides the financial flexibility to grasp growth opportunities in new and emerging distribution channels, including B2C e-commerce.

- Streamlined organisational structure and cost cutting initiatives better match cost base to current operating environment.

- Strengthened capital position should eliminate perceived uncertainty by existing and prospective customers and enhance the Company's ability to negotiate and conclude new licensing agreements.

- The Company is expecting a return to profitability in FY18, with further improvements expected in FY19.

Appendices

Appendix A – Basis of Preparation of Pro Forma Balance Sheet

- To illustrate the effect of the Capital Raising and Debt Restructuring on the Company, the pro forma consolidated balance sheet of the Company has been prepared as at 31 July 2017, based on the following principles:
  a) The pro forma balance sheet has been prepared by management (unaudited) on the basis of accounting policies normally adopted by the Company.
  b) The balance sheet is based on 31 July 2017 actual unaudited results and year-end adjustments.
  c) The financial information provided remains subject to audit and finalisation.
  d) The financial information is presented in abbreviated form, insofar as it does not include all of the disclosures required by the accounting standards applicable to financial statements.
- The actual financial position of the Company on completion of the Capital Raising and Debt Restructuring will differ from the position illustrated in the pro forma balance sheet due to operations during the period between 1 August 2017 and the date when the Capital Raising and Debt Restructuring is completed.

Appendix B – FY18 Forecast Methodology

- The FY18 EBITDA Forecast has been prepared by management based on the following key assumptions:
  - Successful completion of the Capital Raising and Debt Restructuring.
  - Completion of the partial sale of the international business and resulting reduction of operating costs[1].
  - Estimates of corporate overheads are based on the restructured business activities, a bottom up assessment and contractual obligations (rent and warehousing), and include the full year impact of significant staff reductions implemented during FY17 as well as the full year impact of significant reductions to the office footprint.
  - The conversion from fixed to variable warehousing.
  - Revenue and margin projections are based on bottom up sales forecasts and margins, current secured products/agencies, and current customer trading terms.
  - The impact of a limited number of profit improvement initiatives identified during the strategic review and to be implemented during FY18.
  - Minimal capital expenditure requirements due to reduction in the Company's own product development activities.

1 – Whilst the sale process is well advanced the forecast EBITDA range allows for a closure should the sale not proceed.

Appendix B – Key Risks

Summary

- Investors should be aware that there are risks associated with an investment in the Company. Activities of the Company and its controlled entities, as in any business, are subject to risks which may impact on the Company's future financial performance and position. There are a number of factors, both specific to the Company and of a general nature, which may affect the future operating and financial performance and position of the Company and the outcome of an investment in the Company. Some of these risks can be adequately mitigated by the use of safeguards and appropriate systems but many are beyond the control of the Company and its Directors and cannot be mitigated.
- Prior to deciding whether to take up their New Shares under the Entitlement Offer, shareholders should read this entire Investor Presentation and review the continuous disclosure announcements made by the Company to ASX (at www.asx.com.au, ASX: FUN) in order to gain an appreciation of the Company, its activities, operations, financial position and prospects. Shareholders should also consider the summary risk factors set out below in which the Directors believe represent some of the key specific and general risks that shareholders should be aware of when evaluating the Company and deciding whether to participate in the Entitlement Offer. The risk factors set out below are not intended to be an exhaustive list of all of the risk factors to which the Company is exposed. Shareholders should also have regard to their own investment objectives and financial circumstances and should seek professional guidance from their stockbroker, solicitor, accountant or other professional advisor before deciding whether to invest.

Appendix B – Key Risks (cont.)

Specific Risks

- **Financial risk** – Although Funtastic has executed a binding term sheet with NAB for the Debt Restructuring, it is still subject to executing formal documentation and the satisfaction of any outstanding conditions precedent, so there is risk that it may not eventuate or that a condition may not be satisfied. Even after a successful completion of the Debt Restructuring, the Company will continue to have debt obligations. The debt facilities contain a variety of material covenants which the Company and its subsidiaries must comply with. Whilst every effort will be made to seek to comply with the covenants, in the event of a breach, NAB may be entitled to call for repayment of the facilities (and exercise its rights as a secured creditor where Funtastic defaults on such repayment). This will have a material adverse effect on the ability of the Company to continue its operations.

  Funtastic may not be able to access equity or debt capital markets to support its business growth objectives or successfully refinance its debt facilities on commercially acceptable terms, or at all.

  If Funtastic is unable to manage its indebtedness and the restrictions applicable to it as a result of this indebtedness, its ability to implement its business strategy may be impaired and the results of its operations and financial condition may be adversely affected.

- **Operational risk** – Funtastic is exposed to a range of operational risks including equipment failures and other accidents, industrial action or disputes, lease renewals, damage by third parties, floods, fire, major cyclone, earthquake, terrorist attack or other disaster. These risks may have a material adverse impact on Funtastic's financial performance and cash flows.

Appendix B – Key Risks (cont.)

Specific Risks (cont.)

- **Sustainability of revenues and margins** – the sustainability and growth in the level of Funtastic's revenue and profit margins is dependent on its continued ability to secure and maintain relationships with customers and suppliers. Funtastic relies on various key customer and supplier relationships, and the loss or impairment of any of these relationships could have a material adverse effect on the Company's operations, financial condition and prospects.
- **Supply chain disruptions** – Funtastic has established an extensive and reliable supply chain that allows it to procure and deliver products to customers in a timely and efficient manner. Disruption to any aspect of this supply chain could have a material adverse impact on Funtastic's operational and financial performance.
- **IT systems** – Funtastic is reliant on the capability and reliability of its information technology systems and backup systems and those of its external service providers (such as communication carriers) to process transactions, manage inventory, report financial results and manage its business. The failure of any of Funtastic's or its customers' IT systems, including inventory management systems, could have a significant impact on Funtastic's ability to trade. Such failures may have an adverse effect on the Company's future financial performance.
- **Counterparty risk** – Third parties, such as customers, suppliers and other counterparties to contracts may not be willing or able to perform their obligations to Funtastic. Funtastic provides credit to its customers and the inability of its customers to pay their debts may materially impact the Company's financial performance.

Appendix B – Key Risks (cont.)

Specific Risks (cont.)

- **Loss of key personnel** – Funtastic's business operations depend to a significant extent on its key personnel, in particular its senior management team. These individuals have extensive experience in, and knowledge of, the markets Funtastic operates in and Funtastic's business. The loss of key personnel and the time taken to recruit suitable replacement(s) or additional personnel could adversely affect the Company's future financial performance.
- **Product risk** – The products Funtastic supplies to customers are subject to sales agreements with customers and must meet certain specifications. Despite controls and measures being in place, products may fall outside these specifications due to process failures, equipment malfunctions, or variability of inputs during the manufacturing and packaging processes, which could have a material adverse effect on the Company's reputation, financial condition and results of operations. Furthermore, Funtastic may be exposed to certain warranty and liability risks relating to defects in products. If any products it sells are defective or fail to meet the required specifications, the relevant customers may assert claims against the Company.
- **Occupational health and safety** – Funtastic's operations are subject to health and safety laws and regulations. Failure to comply with these laws and regulations could result in enforcement action by regulatory authorities which could result in monetary penalties for the Company. In addition, any significant regulatory body investigation or enforcement of health and safety requirements could damage the Company's reputation as a responsible company and employer or could result in suspension or closure of operations.
- **Intellectual property** – There can be no assurances that the validity, ownership or authorised use of intellectual property (including technology, know-how, trademarks, designs and patents (both owned and licensed) relevant to Funtastic's business may not be challenged.

Appendix B – Key Risks (cont.)

Specific Risks (cont.)

- **Insurance** – It is not always possible to obtain insurance against all risks and Funtastic may decide not to insure against certain risks as a result of high premiums or other reasons. The occurrence of an event that is not fully covered, or covered at all, by insurance, could have a materially adverse effect on the Company's financial position.
- **Consumer demand** – Funtastic's operating and financial performance is dependent on consumer demand for its products. If the Company does not deliver products that appeal to consumers, or if there is a decline in consumer demand for its products, Funtastic's financial and operating performance could be materially adversely affected. If product input costs increase and Funtastic seeks to pass on such increases to consumers through higher prices, this could result in a reduction in consumer demand for Funtastic's products and a fall in revenue.
- **Retailer relationships** – Any adverse change in Funtastic's existing relationships with key distributors and retailers could have a material adverse impact on its operations and financial performance. Any action by distributors or retailers to reduce their inventories could also result in a fall in revenue for Funtastic. The Company notes that two of its key retailers are currently implementing revised strategic plans, and Funtastic is expanding its distribution base domestically and internationally to diversify this potential risk.
- **Product sourcing and licensing** – Funtastic relies on a range of parties for its product sourcing and licensing strategy. Any change in existing relationships (including termination of any key supply arrangements) or any change in terms or conditions of overseas suppliers and any change in the international political or economic environment may lead to material adverse changes to Funtastic's operational and financial performance.

Appendix B – Key Risks (cont.)

Specific Risks (cont.)

- **Damage to brands –** The reputation and value associated with Funtastic's and/or it's licensors' brands could be adversely impacted by a range of factors and could have an adverse effect on the Company's future financial performance.
- **Interest rates and foreign exchange risks –** Adverse movements in exchange rates may impact product costs and price competitiveness which may impact the operations and financial performance of Funtastic. Also, adverse fluctuations in interest rates may impact Funtastic's financial performance.
- **Competition –** Funtastic competes in the toy, sporting and confectionary product segments in both Australia and overseas. The Company has a wide range of competitors including major international companies, and a large number of smaller companies. The actions of these competitors or changes in consumer preferences may adversely affect Funtastic's financial performance.
- **Litigation and disputes –** Legal and other disputes may arise from time to time in the ordinary course of the Company's operations. Any such dispute may impact profitability or affect the value of Funtastic's assets.

Appendix B – Key Risks (cont.)

General risks

- General economic factors - General economic conditions, globally or in one or more of the markets Funtastic operates in, may adversely affect the Company's financial performance. Recessionary or low growth economic conditions may significantly impact on business and financial performance.
- Australian law changes – Future changes in Australian law, including tax and employment laws, may affect Funtastic's financial performance. Further, changes in tax laws, or Funtastic's methods of calculation, may impact its tax assets and liabilities.

Appendix B – Key Risks (cont.)

Risks specific to the Shares

- Investment in shares – There are general risks associated with investments in equity capital such as Funtastic shares. The trading price of Funtastic shares may fluctuate with movements in equity capital markets in Australia and internationally. This may result in the market price for the New Shares being less or more than the Entitlement Offer Price. Generally applicable factors that may affect the market price of shares include general movements in Australian and international stock markets, investor sentiment, Australian and international economic conditions and outlook, changes in interest rates and the rate of inflation, changes in government legislation and policies, in particular taxation laws, announcement of new technologies, geo-political instability, including international hostilities and acts of terrorism, demand for and supply of Funtastic securities, announcements and results of competitors, analyst reports and future issues of Funtastic securities. No assurances can be given that the New Shares will trade at or above the Offer Price. None of Funtastic, its directors or any other person guarantees the market performance of the New Shares. The operational and financial performance and position of Funtastic and Funtastic's share price may be adversely affected by a worsening of general economic conditions in Australia, as well as international market conditions and related factors. It is also possible that new risks might emerge as a result of Australian or global markets experiencing extreme stress or existing risk, and may manifest themselves in ways that are not currently foreseeable. The equity markets have in the past and may in the future be subject to significant volatility.

Appendix B – Key Risks (cont.)

Risks specific to the Shares (cont.)

- Risks associated with selling or transferring rights under the Entitlement Offer – There is no guarantee that a market will develop for the sale of Entitlements or that shareholders will be able to sell their Entitlements on ASX, or that the Entitlements will have any value at all. Prices obtainable for Entitlements may rise and fall over the Entitlements trading period. If you sell your Entitlements at one stage in the Entitlements trading period, you may receive a higher or lower price than a shareholder who sells their Entitlements at a different stage in the Entitlement trading period. If you sell or transfer all or part of your Entitlement or do not participate in the Entitlement Offer, you will forgo any exposure to future increases or decreases in the value of New Shares that would have been allotted to you had you taken up your Entitlement (or any value for your Entitlement which may have been achieved through its sale on ASX or otherwise) and your percentage shareholding in Funtastic (held at the Record Date) will be diluted to the extent of your non-participation in the Entitlement Offer. Ineligible Shareholders' percentage ownership in Funtastic (held at the Record Date) will also be diluted as a result of the Entitlement Offer. This dilution will be in addition to the dilution occurring as a result of the Restructure. To the maximum extent permitted by law, Funtastic, the underwriters, Funtastic's advisers or brokers and any of their respective related bodies corporate, affiliates, directors, officers, employees or advisers, will not be liable, including for negligence, for any failure to procure any applications for New Shares offered under the Entitlement Offer or any potential proceeds for Entitlements.
- Tax consequences - The tax consequences from selling Entitlements or from doing nothing may be different. Before selling Entitlements or choosing to do nothing in respect of Entitlements, a Funtastic shareholder should seek independent tax advice and may wish to refer to the "Australian Tax Considerations" section contained in the Offer Booklet, which will provide further information on potential tax implications for Australian shareholders

Appendix B – Key Risks (cont.)

Risks specific to the Shares (cont.)

- Sell down by substantial shareholders - There is a risk that Funtastic 's substantial shareholders (including directors) may seek to sell down their shareholdings in Funtastic . A significant sale of shares, or a perception that a sell-down may occur, could adversely affect the price of Funtastic 's shares.
- Economic risk and external market risk - Various factors including political movements, stock market trends, changing customer preferences, interest rates, inflation levels, commodity prices, foreign exchange rates, industrial disruption, environmental impacts, international competition, taxation changes and legislative or regulatory changes, may have an adverse impact on the Company's operating costs, profit margins and Share price. These factors are beyond the control of the Company and it cannot, to any degree of certainty, predict how they will impact on the Company. Prolonged deterioration in general economic conditions could potentially have an adverse impact on the Company and its operations and may adversely impact the trading price of Funtastic Shares.
- Liquidity – There can be no guarantee that an active market in Funtastic shares will develop. It may therefore be difficult for investors to sell their shares at a price that is attractive to them or at all. There may be relatively few potential buyers and sellers on ASX at any time, and this may increase share price volatility and affect the prevailing market price at which shareholders are able to sell their shares. This may result in shareholders receiving a market price for their shares that is less than the Offer Price.