SPIN MASTER CORP.
2019 ANNUAL REPORT

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Spin Master (TSX:TOY; www.spinmaster.com) is a leading global children's entertainment company that creates, designs, manufactures, licenses and markets a diversified portfolio of innovative toys, games, products and entertainment properties. Spin Master is best known for award-winning brands including Zoomer®, Bakugan®, Erector® by Meccano®, Hatchimals®, Air Hogs® and PAW Patrol®. Since 2000, Spin Master has received 110 TIA Toy of The Year (TOTY) nominations with 30 wins across a variety of product categories, including 13 TOTY nominations for Innovative Toy of the Year. To date, Spin Master has produced nine television series, including the relaunched Bakugan: Battle Planet and current hit PAW Patrol, which is broadcast in over 160 countries and territories globally. Spin Master employs over 1,800 people in countries around the world including Canada, United States, Mexico, France, Italy, United Kingdom, Russia, Slovakia, Poland, Germany, Sweden, the Netherlands, China, Hong Kong, Japan, Vietnam and Australia.

GROWTH STRATEGIES

CONTINUE TO INNOVATE USING OUR GLOBAL INTERNAL AND EXTERNAL R&D NETWORK

- Leverage competitive strengths and global networks to build a robust pipeline
- Continue to focus on strategic brand building
- Continue to invest in advanced technology, and licenses

DEVELOP EVERGREEN GLOBAL ENTERTAINMENT AND DIGITAL TOY PROPERTIES

- Leverage current properties
- Launch at least one new property per year
- Strategically relaunch properties to capitalize on value of owned content library
- Continue to build broadcast relationships
- Generate new licensing and merchandising revenue streams

INCREASE SALES IN INTERNATIONAL DEVELOPING AND EMERGING MARKETS

- Increase proportion of sales outside of North America to 45% in the medium term

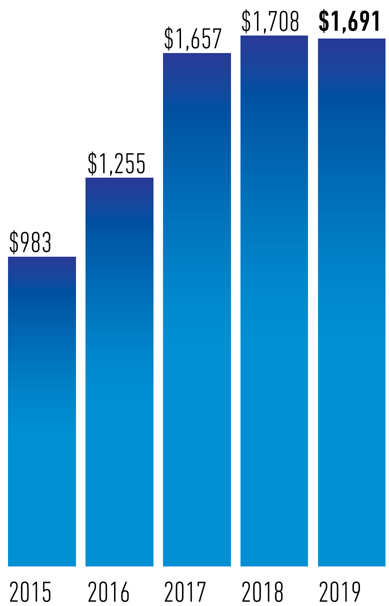
LEVERAGE GLOBAL PLATFORM THROUGH STRATEGIC ACQUISITIONS

- Fragmented industry with opportunities for consolidation
- Strong balance sheet with financial flexibility

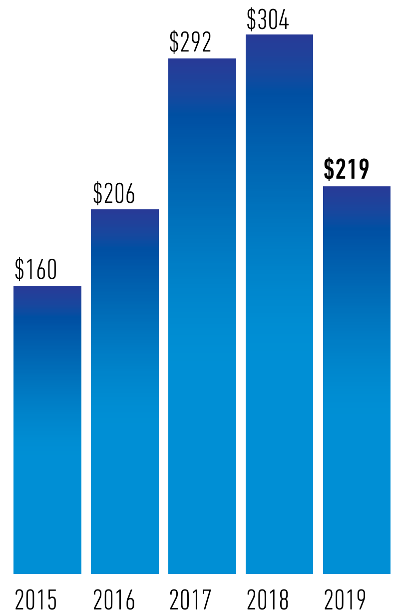
FINANCIAL INFORMATION

US$ millions

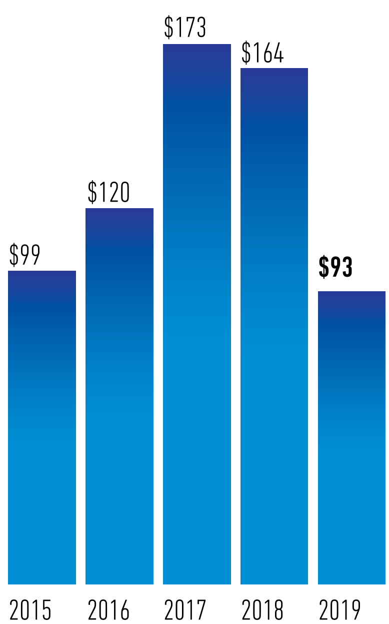
GROSS PRODUCT SALES[1]



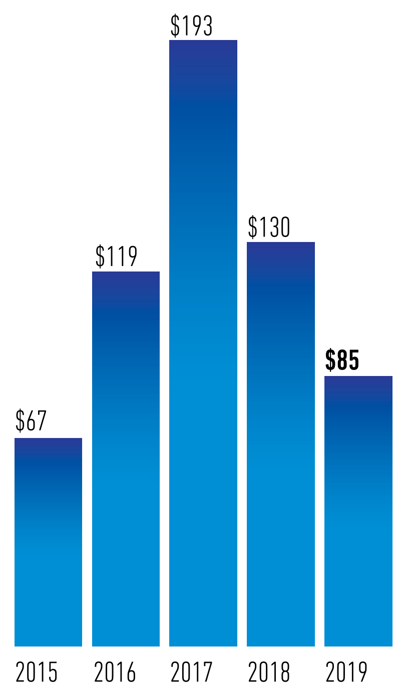
ADJUSTED EBITDA[1,2]



ADJUSTED NET INCOME[1,2]



FREE CASH FLOW[1]



1. Non-IFRS Financial measures. Non-IFRS measures do not have any standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and are therefore unlikely to be comparable to similar measures presented by other issuers. Please refer to the section entitled "Non IFRS Financial Measures" in the Management Discussion and Analysis within Spin Master's public filings for a discussion of the definition, components and uses of such non-IFRS measures, as well as a reconciliation of such non-IFRS measures to IFRS measures (where a comparable IFRS measure exists).
2. Spin Master adopted International Financial Reporting Standard 16 Leases ("IFRS 16"), effective January 1, 2019. The Company implemented the standard using the modified retrospective approach. As a result, the Company's 2019 results reflect lease accounting under IFRS 16. Prior year results have not been restated. See section "Changes in Accounting Policies" of the Company's MD&A for the three month period and year ended December 31, 2019 for more information on the implementation of IFRS 16.

LETTER TO SHAREHOLDERS

Innovation has always been a key component of Spin Master's DNA. As our industry evolves, the underlying strength of our core business and our financial stability continue to fuel our dedication to long-term growth driven by innovation.

FELLOW SHAREHOLDERS,

In 2019, we faced several challenges as we continued to navigate an evolving retail and content consumption landscape. Against this backdrop, we invested to position our business for the future while remaining focused on our strategies designed to achieve long-term success. Our overall performance for the year was one of contrasts: despite the solid performance of many of our brands and franchises, supply chain challenges, combined with industry-wide softness of retail toy sales during the shortened 2019 U.S. holiday shopping season, meant we were unable to achieve our financial goals for 2019.

The macro environment has become more complex, especially in the United States where brick and mortar retail locations are faced with declining customer traffic and where the content landscape has shifted. In the last two years, a major retailer, Toys R Us, exited the market forcing the industry to absorb that volume. The growth of on-line shopping, a trend that continues to accelerate, has created further challenges in order patterns and distribution requirements, with customers shopping later each year. Furthermore, content consumption has continued to shift from traditional linear models to SVOD, AVOD and mobile digital platforms, which has affected consumer purchasing behavior and our marketing mix. These factors were further amplified by a political environment characterized by trade tensions between the U.S. and China and the threat of tariffs on toys. Fortunately, these tariffs were not implemented.

We also dealt with several internal operational challenges in 2019. The key issue related to the poor execution in Q3 of the establishment of a new distribution center on the US East Coast and the consolidation of four existing warehouses inherited under the *GUND, Cardinal* and *Swimways* acquisitions into the new warehouse. This resulted in significant order processing and delivery disruption and materially increased costs in our U.S. supply chain in 2019. In addition, we incurred heavy non-compliance charges from our customers as a result of this poor performance.

Despite this, we reported Gross Product Sales[1] of $1,691 million, down only 1% from 2018. On a constant currency basis, Gross Product Sales[1] were flat compared to 2018. Our core portfolio remains strong, with Gross Product Sales[1] growing approximately 16% over 2018, excluding the $230 million year over year decline in the sales of *Hatchimals* products. Over the past 10 years, our Gross Product Sales[1] have increased at a compound annual growth rate of approximately 10%, which is a testament to the success of our brand innovation process.

Although our efforts remained focused on initiatives to expand gross and EBITDA margins, the challenges we faced in 2019 resulted in significant costs to ensure the continued success of our business. We incurred significantly increased sales allowances over prior years, which reduced our gross margin. This was driven by non-compliance charges for late or incomplete shipments, higher markdowns and increased levels of promotional spending as customers shopped later and to ensure we kept retail inventories as low as possible heading into 2020. We incurred significantly higher, warehousing and distribution costs in order to expedite deliveries to customers, costs to move finished goods between warehouses and increased inventory storage costs due to higher inventory levels. The combination of lower Gross Product Sales[1], higher sales allowances, higher warehousing and distribution costs, higher selling expenses and deleveraging of fixed operating costs combined to reduce our Adjusted EBITDA Margin[1].

1. Non-IFRS Financial measures. Non-IFRS measures do not have any standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and are therefore unlikely to be comparable to similar measures presented by other issuers. Please refer to the section entitled "Non IFRS Financial Measures" in the Management Discussion and Analysis within Spin Master's public filings for a discussion of the definition, components and uses of such non-IFRS measures, as well as a reconciliation of such non-IFRS measures to IFRS measures (where a comparable IFRS measure exists).

GROWTH STRATEGIES

Despite these operational challenges, we believe in the underlying strength of our business strategy, which remains intact. We executed well against our four growth strategies, which include: innovating our core portfolio of products; creating successful global entertainment properties; increasing international sales; and making strategic acquisitions. These strategies continue to be the drivers of our long-term growth model and are the primary focus of Spin Master's management team.

INNOVATION

Success in the toy industry demands continuous innovation. Spin Master's ability to innovate has, since our inception, been one of our core competencies and a key competitive advantage. At the heart of our growth is our 36-month brand innovation pipeline, which remains robust. This pipeline is fed by the multiple touch points we have with our consumers, including physical products, traditional and innovative entertainment content, and mobile games. These various touch points strengthen consumers' attachments to our brands and franchises and are the engine of our long-term growth. We have innovated and diversified our portfolio of brands and products across all 11 categories of the toy industry, maintaining a balanced and diversified portfolio.

Our growth is driven by our ability to identify, develop, and acquire new and innovative products and brands; create and license evergreen entertainment content; and grow internationally in partnerships with inventors, broadcasters, production studios, distributors, and licensors. Our global internal R&D, engineering and design teams, complemented by our 3rd party inventor network consistently creates product innovation for our consumers. The sustainability of our innovation is achieved, in part, from our rolling 36-month brand innovation pipeline. We regularly review our 36-month product pipeline to identify opportunities to commercialize innovation, capitalize on growing trends, fill gaps in our business segments growth targets and diversify within our core demographic.

As part of our focus on growth, we continue to build a strong portfolio of licensed products and invest in partnerships with the licensor community. Supporting strong relationships with licensing partners has been another pillar of our success. While we continue to develop original ideas based on our own IP, we continue to seek high quality licenses which we can combine with our product innovation and global distribution capabilities. In 2019, we added two strong license partnerships to the *GUND* portfolio: *Hilda*, the award winning animation series airing on Netflix, which we announced early this year and the new animated preschool series, *Gabby's Dollhouse*. Beginning in 2020, we are now the new toy licensee for Warner Brothers' DC Entertainment Boys Action category, including remote control and robotic vehicles, water toys, and games and puzzles. This multi-year deal with DC Comics is an incredible testament to our team and we look forward to bringing the DC characters to life for kids around the world in 2020 and beyond.

INTERNATIONAL EXPANSION

In 2019, International Gross Product Sales[1] increased approximately 7%, with very strong sales contributions from some of our key European territories, while Gross Product Sales[1] in North America declined 5.4%. In 2019, we grew Gross Product Sales[1] outside North America to 39.3% of Gross Product Sales[1] from 36.5% in 2018. Despite this strong performance, our international platform remains under-leveraged and provides us with a very meaningful growth opportunity. We are making solid progress toward our goal of increasing our International Gross Product Sales to 45% of our Gross Product Sales[1], up from 35-40% when we went public in 2015

The return on investment in converting a market is strong and we performed well above our internal expectations in these geographies. We plan to selectively convert further 3rd party distributor markets to direct sales where it makes sense strategically for us to do so.

ENTERTAINMENT

Telling stories and creating engaging and endearing characters that resonate with kids around the world is an ongoing priority for Spin Master. Compelling storytelling through a multi-platform content strategy has led to successful franchise development such as *Bakugan* and *PAW Patrol*. We continue to grow our presence in the entertainment arena through multiple avenues, including our own proprietary brands and through partnerships with the best content creators to build a portfolio of diverse and complementary properties in the industry. As part of our strategy will continue to expand into more content for both television with broadcasters such as Nickelodeon; SVOD, such as Netflix and AVOD, such as YouTube. We are embarking on our first foray into feature film, with the announcement of the *PAW Patrol* Movie planned to launch in theatres in 2021 and distributed by Paramount. We hope that *PAW Patrol* will be the first of many feature films in the future.

At the core of Spin Master is our ability to create engaging kids' storytelling for multiplatform consumption. Through the success of our properties such as *PAW Patrol* and others, we have proven that creating evergreen, compelling and engaging kids content and combining that with retail initiatives such as toys helps optimize brand equity and in turn drives higher growth, alternative revenue streams from licensing and merchandising, as well as higher margins. This allows us to diversify and build broader recurring revenue streams across our toy, entertainment content and mobile digital direct-to-consumer markets.

MOBILE DIGITAL

We want to be where kids are and we know kids are increasingly connected to mobile devices, both for entertainment and gaming. We have strategically invested and focused in all areas of content consumption, which includes our mobile digital presence with *Toca Boca* and *Sago Mini*. For years, we've been studying play patterns, which have been converging between physical brands, entertainment franchises and mobile digital platforms. The acquisition of *Toca Boca* and *Sago Mini* three years ago provided us with a strong brand presence in the mobile digital space and allowed us to develop a leadership position in the kid's digital toy space.

Together, *Toca Boca* and *Sago Mini* have more than 20 million monthly active users worldwide, giving us a strong base of users to build on. Our vision is to take our proven capabilities in toys, games and entertainment and combine it with the digital capabilities of *Toca Boca* and *Sago Mini* to provide an end-to-end experience for kids encompassing physical products, entertainment and digital toys. We are developing *Toca Boca* and *Sago Mini* into cross-category franchises that have a strong presence in both physical and digital products. Our toy developers, entertainment content creators and app teams work together to look for opportunities to merge physical toys, digital toys and entertainment content.

In 2020, we are excited to be launching new subscription services under the *Sago Mini* brand. In February, *Sago Mini* launched a new physical box subscription that complements the digital subscription products. This new direct-to-consumer initiative opens up an innovative way for families to promote creative, quirky, open-ended play at home. *Sago School,* which will launch this spring, is a new digital education platform product that promotes playful learning for preschoolers. *Toca Boca* will continue to expand the *Toca Life World* universe, with expanded licensing, including the launch of plush by *GUND* and an animated short now available on YouTube.

ACQUISITIONS

During the year we completed the acquisition of the award-winning *Orbeez*™ brand, a universally appealing play pattern that has stimulated the imaginations of millions of children globally. The acquisition further strengthened our vibrant Activities business, providing recurring revenue and opportunities for integration into our existing product lines, as well as for further innovation. The acquisition of *Orbeez* marks our 21st acquisition since the company was founded in 1994 and the 11th since its initial public offering in 2015.

Also, during the year we completed the acquisition of the global rights to *Hedbanz*. We originally acquired the rights to *Hedbanz* for the US and Mexico in 2011, which has become one of the most successful titles within Spin Master's portfolio of games ever since.

We continue to seek small, medium and large acquisitions leveraging our strong balance sheet and attractive free cash flow profile.

CORPORATE SOCIAL RESPONSIBILITY

As a global organization, we understand that operating a thriving business comes with responsibilities. In everything we do, we have always challenged ourselves to push the boundaries of fun and imagination. In addition, we have always had a strong sense of corporate social responsibility and recognize that we must be mindful of the impact our decisions and operations have on our employees, our customers, consumers and our vendor partners and ultimately our planet. The need to operate in a socially responsible manner is critical for our long-term sustainability. Last year, we made a commitment to our shareholders that we would formally develop and communicate our efforts within the area of Corporate Social Responsibility ("CSR"). For our first report, we have chosen to focus on four key areas: our products, our environment, our community and our employees. We are at the beginning of our CSR journey and we recognize that there is more work to be done, but we are anchored by the passion and commitment demonstrated by our teams across the organization.

LOOKING AHEAD

As we look ahead to 2020, we recognize that our processes, systems, structure need to evolve based on the growing complexities of our global business and a evolving consumer landscape.. While it is critical that we service our retail partners and consumers at the highest level possible, we must do so in a way that allows us to achieve sustainable and profitable growth.

In 2020, we will focus on strengthening our core. We have established cross-functional working teams, leveraging employees from around the globe, who are already identifying ways to improve the way we operate. In addition, we will continue making investments to drive long term operational excellence even as we continue to look for operating leverage.

We are confident in our strategy and remain grounded in our vision for long-term growth. Our strong financial position puts us on solid ground as we navigate through a challenging industry and an ever-evolving content consumption landscape.

As we look forward, we encourage you to think of us not only as a toy company, but as an integrated entertainment business with toys and games, entertainment franchises and digital toys. The strength, diversity and depth of our innovative brands, entertainment franchises and mobile digital portfolio, along with our track record of successful innovation, gives us confidence in delivering our long-term organic Gross Product Sales[1] growth target of mid to high single digits. We have a disciplined financial plan, a leadership team focused on execution and employees focused on delivering our vision.

On behalf of the board and management team, we thank you for your continued support of Spin Master as we strive to build one of the world's great children's entertainment companies and to create everlasting and memorable experiences for kids and families globally.

Anton Rabie
Director and Co-CEO

Ronnen Harary
Chair and Co-CEO

Charles Winograd
Lead Director

CSR AT SPIN MASTER

CSR VISION

Spin Master brings kids and families together through the timeless magic of play. As we continue to grow our business, we seek to be an inclusive employer, enhance the communities we operate in and minimize our environmental impacts.

100% OFFSET
of our self-generated emissions footprint in 2020.

50%
reduction in plastic by 2025.

Move
100%
of blister forms to pulp trays by 2025.

CSR FOCUS AREAS

OUR PRODUCTS

As a leading children's entertainment company, we operate in a highly regulated industry and are committed to the highest product quality and safety.

OUR PEOPLE

People are one of our greatest assets and we are on a journey to better enable them to develop and grow in a safe and inclusive work environment.

OUR ENVIRONMENT

We recognize the need to act in support of the environment and to minimize the impact of our operations, for children and families today and for generations to come.

OUR COMMUNITIES

Giving back is an integral part of our culture. Through philanthropic giving, volunteering and toy donations we help enrich the lives of children and families.

2019 CSR HIGHLIGHTS

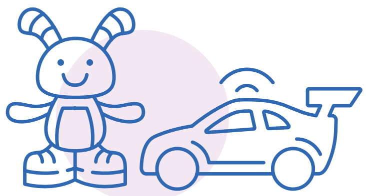
Spin Master embarked on its CSR journey in 2019 with cross-functional representation across the organization. This past year, the company developed a CSR framework, took steps to provide transparency on our four CSR pillars, identified areas of opportunity and, in some pillars, set targets against which to map our progress. The company's inaugural report will be available on **www.spinmaster.com** in April 2020.

TOTY AWARDS

Received 110 Toy Industry Association Toy of the Year (TOTY) nominations and 30 wins since 2000.

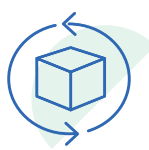
248M

Games and toys produced annually.



ZERO RECALLS

The company has not had any consumer recalls over the past three years and has not had a recall in over a decade.



100%

of manufacturing facilities underwent an Ethical Toy Program audit in 2019.

2019 EMPLOYEE ENGAGEMENT SURVEY HIGHLIGHTS

FAVOURABLE ENGAGEMENT

2017	70%
2019	77%

Spin Master is committed to cultivating an inclusive workplace. In 2019, we executed our first diversity survey to better understand the composition of our current team and ensure that all employees are appropriately represented. Based on these findings, we plan to further our diversity and inclusion plans in 2020.

CASH DONATIONS

2018	$720,000
2019	$978,000

Our cash donations, which have increased 36% YoY, support organizations dedicated to the well-being of children.

IN-KIND DONATIONS

(number of products)

2018	238,000
2019	106,694

In-kind donations are an important part of our overall philanthropic giving. Since the inception of The Toy Movement, we have donated 450,000 toys for children who have been displaced or disadvantaged due to war, conflict or natural disasters.

CARING AND SHARING

(number of offices participating)

2018	6
2019	11

Spin Master partners with local charities at its offices around the globe to provide toy donations during the holiday season in an annual event known as Caring and Sharing.

SPIN MASTER CORP.
2019 ANNUAL REPORT

SPIN MASTER CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

For the three months and year ended December 31, 2019

The following Management's Discussion and Analysis ("MD&A") for Spin Master Corp. ("Spin Master" or the "Company") is dated March 4, 2020 and provides information concerning the Company's financial condition, financial performance and cash flows for the year ended December 31, 2019, and the three months ended December 31, 2019, ("fourth quarter", "the quarter", "Q4"). This MD&A should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes ("financial statements") for the year ended December 31, 2019 and its Annual Information Form ("AIF"). 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 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. Effective December 31, 2019, all financial information is presented in millions of United States dollars ("$", "dollars" and "US$") and has been rounded to the nearest hundred thousand, except per share amounts and where otherwise indicated. Certain totals, subtotals and percentages throughout this MD&A may not reconcile due to rounding. The impact of these rounding adjustments do not have a material effect on the Company's MD&A.

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:

- Innovate using our global internal and external research and development network;
- Developing evergreen global entertainment and digital toys properties;
- Increasing international sales in developed and emerging markets; and
- Leveraging the Company's global platform through strategic acquisitions.

Spin Master's organic growth strategy is centered around the Company's 36-month brand innovation pipeline. This pipeline is fed by internal innovation and multiple touch points with inventors, licensors, consumers and potential acquisitions, traditional and innovative entertainment contact and mobile games. These touch points strengthen consumers' attachments to Spin Master's brands and franchises and are the engine of long-term growth.

Spin Master continues to expand into content for traditional television, video-on-demand, subscription video-on-demand, as well as other short-form and long-form content, including movies, across a variety of distribution channels. In addition, the Company will continue its focus on direct-to-consumer initiatives as consumer purchasing trends in the retail landscape evolve.

Spin Master's business is separated into three geographic segments: North America, comprised of the United States ("U.S.") and Canada; Europe, comprised of the United Kingdom, France, Italy, the Netherlands, Germany, Austria, Switzerland, Belgium, Luxembourg, Slovakia, Hungary, Romania, Czech Republic, Poland, Russia and Greece; and the Rest of World, comprised of Hong Kong, China, Vietnam, India, Australia, Mexico and all other areas of the world serviced by Spin Master's third party distribution network. The Company remains focused on its long-term goal of more than 45% of sales outside of the North America segment.

Spin Master's diversified portfolio of children's products, brands and entertainment properties is reported under five product categories: (1) Activities, Games & Puzzles and Plush; (2) Remote Control and Interactive Characters; (3) Boys Action and Construction; (4) Pre-School and Girls; and (5) Outdoor.

Seasonality factors cause the Company'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 and cash flows generated during the same period.

Selected Financial Information

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

Key Performance Metrics	**Year ended Dec 31**		
(US$ millions, except per share information)	**2019**	**2018[3]**	**2017[3]**
Sales and Earnings			
Gross Product Sales[1]	1,691.2	1,708.0	1,657.1
Revenue	1,581.6	1,631.5	1,551.4
Net income	64.3	154.9	161.1
Adjusted net income[1]	92.8	163.5	173.0
Adjusted EBITDA[1]	219.0	303.6	292.2
Earnings Per Share ("EPS")			
Basic EPS	0.63	1.52	1.58
Diluted EPS	0.62	1.51	1.58
Adjusted basic EPS[1]	0.91	1.61	1.70
Adjusted diluted EPS[1]	0.90	1.60	1.70
Balance Sheet and Cash Flow Data			
Cash	115.3	143.5	117.3
Total assets	1,256.4	999.2	938.4
Total non-current liabilities	97.0	17.2	13.8
Loans and borrowings	—	—	0.5
Cash (net of loans and borrowings)[2]	(115.3)	(143.5)	(116.7)
Cash provided by operating activities	98.4	192.9	267.4
Cash used in investing activities	(116.2)	(159.5)	(81.6)
Cash (used in) provided by financing activities	(13.7)	0.2	(161.5)
Free Cash Flow[1]	84.6	129.5	193.4

Notes:

1) See "Non-IFRS Financial Measures".

2) Total debt less cash.

3) The Company adopted International Financial Reporting Standard 16 Leases ("IFRS 16"), effective January 1, 2019. The Company implemented the standard using the modified retrospective approach. The comparative information presented for 2018 and 2017 has not been restated for the adoption of IFRS 16. On a pro forma basis, the impact of IFRS 16 on Adjusted EBITDA for 2018 and 2017 would be an increase of $11.3 million and $8.8 million, respectively.

(all amounts in US$ millions, except percentages)	Year ended Dec 31		
	2019	2018[2]	2017[2]
Earnings Results			
Gross Product Sales[1] by Product Category			
Activities, Games & Puzzles and Plush	457.7	455.5	365.4
Remote Control and Interactive Characters	299.3	505.4	593.4
Boys Action and Construction	331.4	133.1	112.1
Pre-School and Girls	516.2	517.5	493.1
Outdoor	86.6	96.5	93.1
Gross Product Sales[1]	1,691.2	1,708.0	1,657.1
Sales allowances[1]	227.5	198.4	191.5
Total Net Sales[1]	1,463.7	1,509.6	1,465.6
Other revenue	117.9	121.9	85.8
Total Revenue	1,581.6	1,631.5	1,551.4
Cost of goods sold	796.6	812.7	750.9
Gross profit	**785.0**	**818.8**	**800.5**
Gross Margin	*49.6%*	*50.2%*	*51.6%*
Selling, marketing, distribution and product development	395.4	331.9	312.2
Administrative expenses	247.9	278.4	251.9
Depreciation expenses	32.6	14.7	10.2
Other expenses (income)	6.6	(14.7)	6.7
Foreign exchange loss (gain)	5.8	(9.3)	(11.4)
Finance costs	11.7	9.4	10.4
Income before income tax expense	**85.0**	**208.4**	**220.5**
Income tax expense	20.7	53.5	59.4
Net income	**64.3**	**154.9**	**161.1**

Note:

1) Non-IFRS measure. See "Non-IFRS Financial Measures".

2) The Company adopted International Financial Reporting Standard 16 Leases ("IFRS 16"), effective January 1, 2019. The Company implemented the standard using the modified retrospective approach. The comparative information presented for 2018 and 2017 has not been restated for the adoption of IFRS 16.

The Company's overall performance in the three months and year ended December 31, 2019 was disappointing relative to the Company's outlook. Despite the strong performance of several brands and franchises, the Company experienced a year-over-year decline in gross product sales. A number of factors contributed to the decline.

The Company managed its portfolio of brands more tightly using domestic replenishment in an effort to drive efficiencies and cost savings by establishing a new distribution centre on the U.S. East Coast. The consolidation of four existing warehouses inherited under the Gund, Cardinal and SwimWays acquisitions into this new East Coast distribution centre was a significant factor in the disappointing performance. Additionally, the Company's international growth strategy has included the opening of offices in Central Eastern Europe, Germany, Austria, Switzerland and Russia, which has contributed to additional costs. The Company also accelerated its plan to diversify sourcing away from China due to the U.S./China trade dispute. Although the new factories in Vietnam, India and Mexico will drive future cost savings, there were additional costs incurred in the current year as these changes were expedited. The exit of Toys "R" Us ("TRU") from the toy industry has also impacted the redistribution to new customers and channels. This includes the evolving retailer trend away from direct import orders towards domestic orders, which created challenges in order patterns and distribution requirements. The growth of the trend towards online purchasing drove more just-in-time shipments and shifted customer demand to later in the season.

Revenue of $1,581.6 million decreased by 3.1% from $1,631.5 million in 2018. In constant currency terms (a non-IFRS measure), revenue decreased by 2.1%. The decline in revenue was primarily driven by a decrease in Gross Product Sales (a non-IFRS measure), a decrease in other revenue and higher sales allowances.

Net income for the year ended December 31, 2019 was $64.3 million, a decrease of $90.6 million or 58.5% from $154.9 million in 2018. Excluding share-based compensation, restructuring expenses, foreign exchange gains/

losses and other non-recurring items, Adjusted Net Income (a non-IFRS measure) for the year ended December 31, 2019 was $92.8 million, a decrease of $70.7 million or 43.2% from $163.5 million in 2018.

Adjusted EBITDA (a non-IFRS measure) decreased to $219.0 million or 13.8% of revenue, compared to $303.6 million or 18.6% in 2018, primarily driven by decreased gross profit and increased distribution and selling expenses, partially offset by lower administrative expenses.

Spin Master increased its revenue from $1,551.4 million in 2017 to $1,581.6 million in 2019. Over the same period, Gross Product Sales (a non-IFRS measure) have increased from $1,657.1 million to $1,691.2 million, a 10.5% compound annual growth rate. Over the past 10 years, the Company's Gross Product Sales have grown at a 7.4% compound annual growth rate.

FINANCIAL PERFORMANCE

For the three months and year ended December 31, 2019 compared to the three months and year ended December 31, 2018:

Consolidated Results

The following tables provide a summary of Spin Master's consolidated results for the three months and year ended December 31, 2019 and 2018:

	Three Months Ended December 31			
(All amounts in US$ millions)	**2019**	**2018 [1]**	**$ Change**	**% Change**
Revenue	473.5	414.3	59.2	14.3 %
Cost of sales	247.4	215.3	32.1	14.9 %
Gross profit	**226.1**	**199.0**	**27.1**	**13.6 %**
Selling, marketing, distribution and product development	164.8	122.6	42.2	34.4 %
Administrative expenses	66.6	68.2	(1.6)	(2.3)%
Depreciation expenses	8.8	5.3	3.5	66.0 %
Other expenses (income)	7.5	(0.7)	8.2	(1,171.4)%
Foreign exchange gain	(0.1)	(13.4)	13.3	(99.3)%
Finance costs	3.2	2.9	0.3	10.3 %
(Loss) income before income tax	**(24.7)**	**14.1**	**(38.8)**	**(275.2)%**
Income tax (recovery) expense	(7.5)	2.7	(10.2)	(377.8)%
Net (loss) income	**(17.2)**	**11.4**	**(28.6)**	**(250.9)%**

1) The Company adopted International Financial Reporting Standard 16 Leases ("IFRS 16"), effective January 1, 2019 and implemented the standard using the modified retrospective approach. As a result, the Company's consolidated financial statements for the three months and year ended December 31, 2019 reflect lease accounting under IFRS 16. Prior year results have not been restated.

Highlights for the three months ended December 31, 2019 as compared to the same period in 2018:
(US$ millions, except per share information)

- Revenue of $473.5 million increased by 14.3% from $414.3 million. In constant currency terms (a non-IFRS measure), revenue increased by 14.7%.
- Gross profit as a percentage of revenue decreased to 47.8% from 48.0%.
- Selling, marketing, distribution and product development expenses increased to $164.8 million or 34.8% of revenue from $122.6 million or 29.6%.
- Administrative expenses increased to $66.6 million or 14.1% of revenue from $68.2 million or 16.5%.
- Net loss was $17.2 million or loss per share of $0.17 compared to net income of $11.4 million or earnings per share of $0.11 (diluted).
- Adjusted Net Loss (a non-IFRS measure) was $7.8 million or loss per share of $0.08 compared to adjusted Net Income of $6.2 million or earnings per share of $0.06 (diluted).
- Adjusted EBITDA (a non-IFRS measure) decreased to $6.7 million or 1.4% of revenue, from $35.2 million or 8.5%.

- Free Cash Flow (a non-IFRS measure) was negative $22.6 million compared to negative $11.5 million.
- On December 4, 2019, the Company acquired the intellectual property associated with the Orbeez brand, pursuant to an asset purchase agreement for total purchase consideration of $15.2 million. The assets are included in the Activities, Games & Puzzles and Plush product category.

	Year Ended December 31			
(All amounts in US$ millions)	**2019**	**2018 [1]**	**$ Change**	**% Change**
Revenue	1,581.6	1,631.5	(49.9)	(3.1)%
Cost of sales	796.6	812.7	(16.1)	(2.0)%
Gross profit	**785.0**	**818.8**	**(33.8)**	**(4.1)%**
Selling, marketing, distribution and product development	395.4	331.9	63.5	19.1 %
Administrative expenses	247.9	278.4	(30.5)	(11.0)%
Depreciation expenses	32.6	14.7	17.9	121.8 %
Other expenses (income)	6.6	(14.7)	21.3	(144.9)%
Foreign exchange loss (gain)	5.8	(9.3)	15.1	(162.4)%
Finance costs	11.7	9.4	2.3	24.5 %
Income before income tax expense	**85.0**	**208.4**	**(123.4)**	**(59.2)%**
Income tax expense	20.7	53.5	(32.8)	(61.3)%
Net income	**64.3**	**154.9**	**(90.6)**	**(58.5)%**

1) The Company adopted International Financial Reporting Standard 16 Leases ("IFRS 16"), effective January 1, 2019 and implemented the standard using the modified retrospective approach. As a result, the Company's consolidated financial statements for the three months and year ended December 31, 2019 reflect lease accounting under IFRS 16. Prior year results have not been restated.

Highlights for the year ended December 31, 2019 as compared to the same period in 2018:
(US$ millions, except per share information)

- Revenue of $1,581.6 million decreased by 3.1% from $1,631.5 million. In constant currency terms (a non-IFRS measure), revenue decreased by 2.1%.
- Gross profit as a percentage of revenue decreased to 49.6% from 50.2%.
- Selling, marketing, distribution and product development expenses increased to $395.4 million or 25.0% of revenue from $331.9 million or 20.3%.
- Administrative expenses decreased by $30.5 million to $247.9 million from $278.4 million. As a percentage of revenue, administrative expenses decreased to 15.7% from 17.1%.
- Net income was $64.3 million or $0.62 per share (diluted) compared to $154.9 million or 1.51 per share (diluted).
- Adjusted Net Income (a non-IFRS measure) was $92.8 million or $0.90 per share (diluted) compared to $163.5 million or $1.60 per share (diluted).
- Adjusted EBITDA (a non-IFRS measure) decreased to $219.0 million or 13.8% of revenue, compared to $303.6 million or 18.6%.
- Free Cash Flow (a non-IFRS measure) was $84.6 million compared to $129.5 million.
- In addition to the Orbeez acquisition on December 4, 2019, the Company acquired the intellectual property associated with the Hedbanz brand on August 9, 2019, pursuant to a share purchase agreement for total cash consideration of $9.4 million. The assets are included in the Activities, Games & Puzzles and Plush product category.

Revenue

For the three months ended December 31, 2019 as compared to the same period in 2018:

The following table provides a summary of Spin Master's revenue and details by product category for the three months ended December 31, 2019 and 2018:

	Three Months Ended Dec 31			
(All amounts in US$ millions)	**2019**	**2018**	**$ Change**	**% Change**
Activities, Games & Puzzles and Plush	162.1	145.2	16.9	11.6 %
Remote Control and Interactive Characters	106.5	107.9	(1.4)	(1.3)%
Boys Action and Construction	114.8	57.9	56.9	98.3 %
Pre-School and Girls	152.4	139.1	13.3	9.6 %
Outdoor	14.9	15.4	(0.5)	(3.2)%
Gross Product Sales[1]	**550.7**	**465.5**	**85.2**	**18.3 %**
Sales Allowances[1]	109.1	84.4	24.7	29.3 %
Total Net Sales[1]	**441.6**	**381.1**	**60.5**	**15.9 %**
Other revenue	31.9	33.2	(1.3)	(3.9)%
Total Revenue	**473.5**	**414.3**	**59.2**	**14.3 %**

[1] See "Non-IFRS Financial Measures".

Gross Product Sales increased by $85.2 million or 18.3%, to $550.7 million with an unfavourable foreign exchange impact of $2.6 million or 0.6%. Excluding the impact of foreign exchange, Gross Product Sales increased by $87.8 million or 18.9% to $553.3 million.

Gross Product Sales in Activities, Games & Puzzles and Plush increased by $16.9 million or 11.6% to $162.1 million. The increase was driven primarily by increases in *Kinetic Sand*, *Cool Maker*, *Gund* and the Games & Puzzles portfolio, partially offset by lower sales of *Bunchems*.

Gross Product Sales in Remote Control and Interactive Characters decreased by $1.4 million or 1.3% to $106.5 million, primarily due to lower sales of *Hatchimals*, while *Zoomer*, *Luvabella* and *Air Hogs* also declined, partially offset by sales of *Owleez*, *Monster Jam RC*, *Juno* and *PAW Patrol RC*.

Gross Product Sales in Boys Action and Construction increased by $56.9 million or 98.3% to $114.8 million. The increase was primarily driven by increases in *Bakugan* and *Monster Jam* as well as initial shipments of *DC* licensed products, partially offset by decreases in *Boxer* and *Fugglers*.

Gross Product Sales in Pre-School and Girls increased by $13.3 million or 9.6% to $152.4 million. The increase was driven primarily by increases in *PAW Patrol* and sales of *Candylocks* and *Universe*, partially offset by decreases in *Party Popteenies* and *Twisty Petz*.

Gross Product Sales in Outdoor decreased by $0.5 million or 3.2% to $14.9 million.

Sales Allowances increased by $24.7 million or 29.3% to $109.1 million, primarily driven by higher markdowns, the continued expansion in Europe and Russia, which have higher Sales Allowance rates and an increase in non-compliance charges from customers attributable to the Company's operational performance issues. As a percentage of Gross Product Sales, Sales Allowances increased 1.7% to 19.8% from 18.1%.

Other revenue decreased by $1.3 million or 3.9% to $31.9 million, driven by decreased television distribution revenue and app revenue from Toca Boca and Sago Mini, partially offset by increased royalty income from products marketed by third parties using Spin Master's owned intellectual property.

The following table provides a summary of Spin Master's Gross Product Sales by geographic segment for the three months ended December 31, 2019 and 2018:

	Three Months Ended Dec 31					
(All amounts in US$ millions)	**2019**	**% of GPS**	**2018**	**% of GPS**	**$ Change**	**% Change**
North America	308.8	56.1%	259.9	55.8%	48.9	18.8%
Europe	164.2	29.8%	129.1	27.7%	35.1	27.2%
Rest of World	77.7	14.1%	76.5	16.5%	1.2	1.6%
Gross Product Sales[1]	**550.7**	**100.0%**	**465.5**	**100.0%**	**85.2**	**18.3%**

[1] See "Non-IFRS Financial Measures".

As a percentage of total Gross Product Sales, the North America segment increased 0.3% to 56.1% compared to 55.8% in the prior year. International sales, comprised of the Europe and Rest of World segments, decreased 0.3% to 43.9% compared to 44.2% in the prior year.

Gross Product Sales in North America increased by $48.9 million or 18.8% to $308.8 million. The increase was driven by increases in *Monster Jam* products, *Bakugan*, *Kinetic Sand*, *PAW Patrol*, the Games & Puzzles portfolio, sales of *Owleez* and initial shipments of *DC* licensed products, which was offset by declines in *Hatchimals* and *Twisty Petz*.

Gross Product Sales in Europe increased by $35.1 million or 27.2% to $164.2 million, with an unfavourable foreign exchange impact of $3.2 million. The increase was primarily driven by increases in *Bakugan*, *PAW Patrol*, *DreamWorks Dragons*, *Monster Jam* products, *Kinetic Sand* and *Cool Maker* as well as sales of *Owleez*, offset in part by declines in *Hatchimals*, *Bunchems* and *Boxer*.

Gross Product Sales in Rest of World increased by $1.2 million or 1.6% to $77.7 million, with a favourable foreign exchange impact of $0.6 million. The increase was primarily due to increases in *Bakugan*, *Monster Jam* products, *PAW Patrol* and initial shipments of *DC* licensed products, offset in part by declines in *Hatchimals*, *Zoomer*, *Luvabella*, *Party Popteenies* and *Boxer*.

For the year ended December 31, 2019 as compared to the same period in 2018:

The following table provides a summary of Spin Master's revenue and details by product category for the year ended December 31, 2019 and 2018:

	Year ended Dec 31			
(All amounts in US$ millions)	**2019**	**2018**	**$ Change**	**% Change**
Activities, Games & Puzzles and Plush	457.7	455.5	2.2	0.5 %
Remote Control and Interactive Characters	299.3	505.4	(206.1)	(40.8)%
Boys Action and Construction	331.4	133.1	198.3	149.0 %
Pre-School and Girls	516.2	517.5	(1.3)	(0.2)%
Outdoor	86.6	96.5	(9.9)	(10.2)%
Gross Product Sales[1]	**1,691.2**	**1,708.0**	**(16.8)**	**(1.0)%**
Sales Allowances[1]	227.5	198.4	29.1	14.7 %
Total Net Sales[1]	**1,463.7**	**1,509.6**	**(45.9)**	**(3.0)%**
Other revenue	117.9	121.9	(4.0)	(3.3)%
Total Revenue	**1,581.6**	**1,631.5**	**(49.9)**	**(3.1)%**

[1] See "Non-IFRS Financial Measures".

Gross Product Sales decreased by $16.8 million or 1.0% to $1,691.2 million, with an unfavourable foreign exchange impact of $16.7 million or 1.0%. Excluding the impact of foreign exchange, Gross Product Sales was flat. The decrease was primarily attributed to lower sales of *Hatchimals* in the Remote Control and Interactive Characters product category, partially offset by increases in *Bakugan*, *Monster Jam* and *DreamWorks Dragons* in the Boys Action and Construction product category.

Gross Product Sales in Activities, Games & Puzzles and Plush increased by $2.2 million or 0.5% to $457.7 million, primarily driven by increases in *Gund*, *Kinetic Sand* and *Cool Maker*, offset in part by declines in *Bunchems*, *Kinetic Rock* and the Games & Puzzles portfolio.

Gross Product Sales in Remote Control and Interactive Characters decreased by $206.1 million or 40.8% to $299.3 million, primarily due to declines in *Hatchimals*, *Zoomer*, *Luvabella* and *Air Hogs*, partially offset by sales of *Owleez*, *Juno* and *PAW Patrol RC* and increases in *Monster Jam RC.*

Gross Product Sales in Boys Action and High-Tech Construction increased by $198.3 million or 149.0% to $331.4 million, primarily due to increases in *Bakugan*, *Monster Jam* and *DreamWorks Dragons* and initial shipments of *DC* licensed products, partially offset by decreases in *Flush Force*, *Boxer*, *Fugglers* and *Star Wars* licensed merchandise.

Gross Product Sales in Pre-School and Girls decreased by $1.3 million or 0.2% to $516.2 million, driven by declines in *Party Popteenies* and *Rusty Rivets*, partially offset by sales of *Candylocks*, *Awesome Bloss'ems*, *Pre Cool* and *Universe and* increases in *Twisty Petz.*

Gross Product Sales in Outdoor decreased by $9.9 million or 10.2% to $86.6 million.

Sales Allowances increased by $29.1 million or 14.7% to $227.5 million, primarily driven by higher markdowns, the continued expansion in Europe and Russia, which have higher Sales Allowance rates and an increase in non-compliance charges from customers attributable to the Company's operational performance issues. Sales Allowances, as a percentage of Gross Product Sales increased 1.9% to 13.5% from 11.6%.

Other revenue decreased by $4.0 million or 3.3% to $117.9 million, driven by decreased royalty income from products marketed by third parties using Spin Master's owned intellectual property, partially offset by app revenue from Toca Boca and Sago Mini and increased television distribution revenue.

The following table provides a summary of Spin Master's Gross Product Sales by geographic segment for the year ended December 31, 2019 and 2018:

	Year ended Dec 31					
(All amounts in US$ millions)	**2019**	**% of GPS**	**2018**	**% of GPS**	**$ Change**	**% Change**
North America	1,026.3	60.7%	1,085.2	63.5%	(58.9)	(5.4)%
Europe	430.4	25.4%	376.3	22.0%	54.1	14.4 %
Rest of world	234.5	13.9%	246.5	14.5%	(12.0)	(4.9)%
Total Gross Product Sales[1]	**1,691.2**	**100.0%**	**1,708.0**	**100.0%**	**(16.8)**	**(1.0)%**

[1] See "Non-IFRS Financial Measures".

As a percentage of total Gross Product Sales, the North America segment decreased 2.8% to 60.7% compared to 63.5% in the prior year. International sales, comprised of the Europe and Rest of World segments, increased 2.8% to 39.3% compared to 36.5% in the prior year.

Gross Product Sales in North America decreased by $58.9 million or 5.4% to $1,026.3 million, with an unfavourable foreign exchange impact of $0.5. The decrease was driven primarily by declines in *Hatchimals*, *Party Popteenies, Zoomer*, the Games & Puzzles portfolio, *Star Wars* licensed merchandise, *Rusty Rivets* and *Fugglers*, partially offset by increases in *Monster Jam* products, *Bakugan*, *DreamWorks Dragons*, *Owleez*, *Kinetic Sand* and *Juno*.

Gross Product Sales in Europe increased by $54.1 million or 14.4% to $430.4 million, with an unfavourable foreign exchange impact of $14.3. Growth was primarily driven by sales of *Bakugan*, *Owleez* and *Monster Jam* products and increases in *DreamWorks Dragons*, *Cool Maker*, *PAW Patrol* and *Twisty Petz*, partially offset by declines in *Hatchimals*, *Bunchems*, *Party Popteenies* and *Boxer*.

Gross Product Sales in Rest of World decreased by $12.0 million or 4.9% to $234.5 million, with an unfavourable foreign exchange impact of $1.9. The decrease was primarily driven by declines in *Hatchimals*, *PAW Patrol*, *Party Popteenies* and *Luvabella*, offset in part by sales of *Bakugan* and increases in *Monster Jam* products and *DreamWorks Dragons*.

Gross Profit as compared to the same period in 2018:

	Three Months Ended Dec 31			
(All amounts in US$ millions)	**2019**	**2018**	**$ Change**	**% Change**
Revenue	473.5	414.3	59.2	14.3 %
Gross profit	226.1	199.0	27.1	13.6 %
Gross profit as % of revenue	**47.8%**	**48.0%**	**N/A**	**(0.2)%**

For the three months ended December 31, 2019, gross profit increased by $27.1 million or 13.6% to $226.1 million. As a percentage of revenue, gross profit decreased to 47.8% from 48.0%, primarily due to higher freight-related expenses and higher Sales Allowances, partially offset by increased net margin from television distribution revenue.

	Year ended Dec 31			
(All amounts in US$ millions)	**2019**	**2018**	**$ Change**	**% Change**
Revenue	1,581.6	1,631.5	(49.9)	(3.1)%
Gross profit	785.0	818.8	(33.8)	(4.1)%
Gross profit as % of revenue	**49.6%**	**50.2%**	**N/A**	**(0.6)%**

For the year ended December 31, 2019, gross profit decreased by $33.8 million or 4.1% to $785.0 million. As a percentage of revenue, gross profit decreased to 49.6% from 50.2%, primarily due to higher freight-related expenses, higher Sales Allowances, higher repackaging costs and increased duties and brokerage fees, partially offset by higher gross margins due to changes in product mix.

Selling, Marketing, Distribution and Product Development Expenses as compared to the same period in 2018:

	Three Months Ended Dec 31					
(All amounts in US$ millions)	**2019**	**% of revenue**	**2018**	**% of revenue**	**$ Change**	**% Change**
Selling	37.5	7.9%	23.6	5.7%	13.9	58.9%
Marketing	72.6	15.3%	68.8	16.6%	3.8	5.5%
Distribution	46.5	9.8%	22.5	5.4%	24.0	106.7%
Product development	8.2	1.7%	7.7	1.9%	0.5	6.5%
Total	**164.8**	**34.8%**	**122.6**	**29.6%**	**42.2**	**34.4%**

Selling expenses increased by $13.9 million or 58.9% to $37.5 million. Selling expenses as a percentage of revenue increased to 7.9% from 5.7%, due to increased sales of licensed products.

Marketing expenses increased by $3.8 million or 5.5% to $72.6 million, primarily as a result of increased media expenses and experiential initiatives, partially offset by lower merchandising and influencer expenses. Marketing expenses as a percentage of revenue decreased to 15.3% from 16.6%.

Distribution expenses increased by $24.0 million or 106.7% to $46.5 million, primarily due to higher operational expenses attributable to start-up and performance issues associated with the establishment of a new third party East Coast distribution centre in the U.S. and the consolidation of the Gund, SwimWays and Cardinal warehouses into this new facility. Contributing to the increase were higher inventory storage and transportation expenses, attributable to higher domestic inventory levels in anticipation of U.S./China tariffs and the shift towards higher domestic sales compared to direct import sales primarily in the U.S. Distribution expenses as a percentage of revenue increased to 9.8% from 5.4%.

Product development expenses increased by $0.5 million or 6.5% to $8.2 million, primarily due to the timing of projects in the Remote Control and Interactive Characters product categories, offset in part by lower expenses in Pre-School and Girls product categories.

(All amounts in US$ millions)	2019	% of revenue	2018	% of revenue	$ Change	% Change
	Year ended Dec 31					
Selling	112.0	7.1%	89.0	5.5%	23.0	25.8%
Marketing	155.0	9.8%	154.2	9.5%	0.8	0.6%
Distribution	98.1	6.2%	61.2	3.7%	36.9	60.3%
Product development	30.3	1.9%	27.5	1.7%	2.8	10.2%
Total	**395.4**	**25.0%**	**331.9**	**20.3%**	**63.5**	**19.2%**

Selling expenses increased by $23.0 million or 25.8% to $112.0 million. Selling expenses as a percentage of revenue increased to 7.1% from 5.5%, due to increased sales of licensed products.

Marketing expenses increased by $0.8 million or 0.6% to $155.0 million, primarily as a result of increased media expenses and experiential initiatives, partially offset by lower influencer expenses and market research. Marketing expenses as a percentage of revenue increased to 9.8% from 9.5%.

Distribution expenses increased by $36.9 million or 60.3% to $98.1 million, primarily due to higher operational expenses attributable to start-up and performance issues associated with the establishment of a new third party East Coast distribution centre in the U.S. and the consolidation of the Gund, SwimWays and Cardinal warehouses into this new facility. Contributing to the increase were higher inventory storage and transportation expenses, attributable to higher domestic inventory levels in anticipation of U.S./China tariffs and the shift towards higher domestic sales compared to direct import sales primarily in the U.S. Distribution expenses as a percentage of revenue increased to 6.2% from 3.7%.

Product development expenses increased by $2.8 million or 10.2% to $30.3 million, primarily due to the timing of projects in the Remote Control and Interactive Characters and Outdoor product categories, offset by lower expenses in the Boys Action and Construction and Activities, Games & Puzzles and Plush product category.

Administrative Expenses as compared to the same period in 2018:

(All amounts in US$ millions)	2019	2018 [4]	$ Change	% Change
	Three Months Ended Dec 31			
Administrative expenses	66.6	68.2	(1.6)	(2.3)%
Adjustments:				
Restructuring expense[1]	(0.7)	(5.0)	4.3	(86.0)%
Share based compensation[2]	(3.5)	(4.5)	1.0	(22.2)%
Bad debt recovery[3]	0.9	3.0	(2.1)	(70.0)%
Adjusted administrative expenses[5]	**63.3**	**61.7**	**1.6**	**2.6 %**

1) Restructuring expense primarily relates to personnel related costs.

2) Related to expenses associated with subordinate voting shares granted to equity participants at the time of the initial public offering ("IPO") and share option expense. As of August 1, 2018, share based compensation includes expenses related to the Company's Long-Term Incentive Plan ("LTIP").

3) Net bad debt recovery related to the bankruptcy declaration and liquidation proceedings of TRU.

4) The Company adopted International Financial Reporting Standard 16 Leases ("IFRS 16"), effective January 1, 2019 and implemented the standard using the modified retrospective approach. As a result, the Company's consolidated financial statements for the three month ended December 31, 2019 reflect lease accounting under IFRS 16. Prior year results have not been restated. On a pro forma basis, the impact of IFRS 16 on administrative expenses would be a decrease of $3.3 million for the fourth quarter of 2018.

5) See “Non-IFRS Financial Measures”.

For the three months ended December 31, 2019, administrative expenses decreased by $1.6 million or 2.3% to $66.6 million. The decrease was primarily due to lower restructuring expenses, offset in part by increased personnel related expenses and lower bad debt recovery related to TRU. Administrative expenses as a percentage of revenue decreased to 14.1% from 16.5%.

Adjusted administrative expenses increased by $1.6 million or 2.6% to $63.3 million. The increase was driven by higher professional services expenses. Adjusted administrative expenses (a non-IFRS measure) as a percentage of revenue decreased to 13.4% from 14.9%.

	Year Ended Dec 31			
(All amounts in US$ millions)	**2019**	**2018** [4]	**$ Change**	**% Change**
Administrative expenses	247.9	278.4	(30.5)	(11.0)%
Adjustments:				
Restructuring expense[1]	(8.8)	(7.2)	(1.6)	22.2 %
Share based compensation[2]	(15.2)	(12.2)	(3.0)	24.6 %
Bad debt recovery (expense)[3]	0.9	(12.1)	13.0	(107.4)%
Adjusted administrative expenses[5]	**224.8**	**246.9**	**(22.1)**	**(9.0)%**

1) Restructuring expense primarily relates to personnel related costs. In the second quarter of 2019 and fourth quarter of 2018, restructuring expenses also included costs related to facility closures.

2) Related to expenses associated with subordinate voting shares granted to equity participants at the time of the IPO and share option expense. As of August 1, 2018, share based compensation includes expenses related to the Company's LTIP.

3) Net bad debt recovery (expense) related to the bankruptcy declaration and liquidation proceedings of TRU during the fourth quarter of 2019, the first quarter of 2018 and the third quarter of 2017.

4) The Company adopted International Financial Reporting Standard 16 Leases ("IFRS 16"), effective January 1, 2019 and implemented the standard using the modified retrospective approach. As a result, the Company's consolidated financial statements for the year ended December 31, 2019 reflect lease accounting under IFRS 16. Prior year results have not been restated. On a pro forma basis, the impact of IFRS 16 on administrative expenses would be a decrease of $11.3 million for 2018.

5) See "Non-IFRS Financial Measures".

For the year ended December 31, 2019, administrative expenses decreased by $30.5 million or 11.0% to $247.9 million. The decrease was primarily due to bad debt expense (net of recovery) related to TRU of $12.1 million incurred in 2018, a decrease in incentive compensation and higher administrative expenses attributable to the acquisition of Gund in 2018. During the year ended December 31, 2019, the Company executed the restructuring of the Gund, SwimWays and Cardinal business units in order to position the Company for future growth. Administrative expenses as a percentage of revenue decreased to 15.7% from 17.1%.

Adjusted administrative expenses decreased by $22.1 million or 9.0% to $224.8 million. The decrease was primarily due to lower property and operations related expenses attributed to the implementation of IFRS 16. Adjusted administrative expenses (a non-IFRS measure) as a percentage of revenue decreased to 14.2% from 15.1%.

Finance Costs as compared to the same period in 2018:

For the three months ended December 31, 2019, finance costs increased by $0.3 million to $3.2 million. For the year ended December 31, 2019, finance costs increased by $2.3 million to $11.7 million. The increase was primarily due to finance costs relating to lease liabilities arising from the adoption of IFRS 16, offset in part by increased interest income.

Foreign exchange (gain) loss as compared to the same period in 2018:

For the three months ended December 31, 2019, there was a foreign exchange gain of $0.1 million compared to $13.4 million. For the year ended December 31, 2019, there was a foreign exchange loss of $5.8 million compared to a gain of $9.3 million. Foreign exchange (gains) losses are generated by the translation of monetary assets/ liabilities denominated in a currency other than the functional currency of the applicable entity and gains/losses related to the Company's hedging programs.

Income tax (recovery) expense as compared to the same period in 2018:

For the three months ended December 31, 2019 the Company had an income tax recovery of $7.5 million compared to an income tax expense of $2.7 million. The effective tax rate was 30.3% compared to 19.1%. For the year ended December 31, 2019 the Company had an income tax expense of $20.7 million compared to $53.5 million. The effective income tax rate is 24.4% compared to 25.7%. The change in the effective income tax rate was primarily driven by different tax rates of subsidiaries operating in other jurisdictions.

Net (loss) income as compared to the same period in 2018:

Net loss for the three months ended December 31, 2019 was $17.2 million, a decrease of $28.6 million or 250.9% from net income of $11.4 million. Excluding share-based compensation, restructuring expense, foreign exchange gains/losses and other non-recurring items, Adjusted Net Loss (a non-IFRS measure) for the three months ended December 31, 2019 was $7.8 million, a decrease of $14.0 million or 223.0% from adjusted net income of $6.2 million.

Net income for the year ended December 31, 2019 was $64.3 million, a decrease of $90.6 million or 58.5% from $154.9 million. Excluding share-based compensation, restructuring expense, foreign exchange gains/losses and other non-recurring items, Adjusted Net Income (a non-IFRS measure) for the year ended December 31, 2019 was $92.8 million, a decrease of $70.7 million or 43.2% from $163.5 million.

OUTLOOK

The Company expects 2020 Gross Product Sales[1] to decline in the mid-single digit range relative to 2019, excluding any supply chain and other disruptions resulting from COVID-19. The Company expects COVID-19, based on currently known factors, to further reduce 2020 Gross Product Sales[1], resulting in a decline in Gross Product Sales[1] toward the higher end of the mid-single digit range. COVID-19 is expected to affect second quarter shipments in particular. The seasonality of Gross Product Sales[1] for 2020 is expected to be approximately 30-32% in H1 and 68-70% in H2.

On a full year comparative basis, the Company expects to deliver Adjusted EBITDA Margin[1] in line with 2019.

[1] 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 annual sales occur during the third and fourth quarters of the Company's fiscal year.

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

(All amounts in US$ millions except EPS)	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Gross Product Sales[1]	550.7	583.3	316.8	240.5	465.5	658.2	296.2	288.0
Revenue	473.5	548.1	321.0	239.0	414.3	620.0	311.5	285.7
Adjusted EBITDA[1]	6.7	150.1	55.2	7.0	35.2	179.9	45.3	43.2
Adjusted EBITDA margin[1]	1.4%	27.4%	17.2%	2.9%	8.5%	29.0%	14.6%	15.2%
Net (loss) income	(17.2)	92.1	10.2	(20.9)	11.4	107.9	26.9	8.7
Basic EPS	$(0.17)	$0.90	$0.10	$(0.21)	$0.11	$1.06	$0.26	$0.09
Diluted EPS	$(0.17)	$0.89	$0.10	$(0.21)	$0.11	$1.06	$0.26	$0.09
Adjusted Net (Loss) Income[1]	(7.8)	93.2	19.9	(12.5)	6.2	117.8	17.6	21.9
Basic adjusted EPS[1]	$(0.08)	$0.91	$0.19	$(0.12)	$0.06	$1.16	$0.17	$0.22
Diluted adjusted EPS[1]	$(0.08)	$0.90	$0.19	$(0.12)	$0.06	$1.15	$0.17	$0.22
Free cash flow[1]	(22.6)	128.6	18.5	(39.8)	(11.5)	149.8	19.5	(28.3)

[1] See "Non-IFRS Financial Measures".

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

(All amounts in US$ millions)	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net (loss) income	**(17.2)**	**92.1**	**10.3**	**(20.9)**	**11.4**	**107.9**	**26.9**	**8.7**
Finance costs	3.2	3.2	2.6	2.7	2.9	2.7	2.2	1.6
Depreciation and amortization	16.2	22.2	24.8	21.4	25.4	17.7	19.6	11.5
Income tax (recovery) expense	(7.5)	33.0	2.8	(7.6)	2.7	38.2	9.5	3.1
EBITDA[1]	**(5.3)**	**150.5**	**40.5**	**(4.4)**	**42.4**	**166.5**	**58.2**	**24.9**
Adjustments								
Restructuring expense[2]	0.7	0.2	7.2	0.7	5.0	0.4	0.6	1.2
Foreign exchange (gain) loss[3]	(0.1)	(4.0)	3.6	6.3	(13.4)	5.4	(1.3)	—
Share based compensation[4]	3.5	3.4	3.9	4.4	4.5	3.6	2.1	2.0
Acquisition related incentive compensation[5]	3.2	—	—	—	(0.3)	0.3	1.2	—
Impairment of intangible assets[6]	5.6	—	—	—	—	—	—	—
Bad debt (recovery) expense[7]	(0.9)	—	—	—	(3.0)	—	—	15.1
Legal settlement[8]	—	—	—	—	—	—	(15.5)	—
Amortization of fair market value adjustments[9]	—	—	—	—	—	3.7	—	—
Adjusted EBITDA[1, 11]	**6.7**	**150.1**	**55.2**	**7.0**	**35.2**	**179.9**	**45.3**	**43.2**
Finance costs	3.2	3.2	2.6	2.7	2.9	2.7	2.2	1.6
Depreciation and amortization	16.2	22.2	24.8	21.4	25.4	17.7	19.6	11.5
Income tax (recovery) expense	(7.5)	33.0	2.8	(7.6)	2.7	38.2	9.5	3.1
Tax effect of adjustments[10]	2.6	(1.5)	5.1	3.0	(2.0)	3.5	(3.6)	5.1
Adjusted Net (Loss) Income[1]	**(7.8)**	**93.2**	**19.9**	**(12.5)**	**6.2**	**117.8**	**17.6**	**21.9**

Footnotes:

1) See "Non-IFRS Financial Measures".

2) Restructuring expense primarily relates to personnel related costs. In the second quarter of 2019 and fourth quarter of 2018, restructuring expenses also included costs related to facility closures.

3) Includes foreign exchange (gains) losses generated by the translation of monetary assets/liabilities denominated in a currency other than the functional currency of the applicable entity and (gains) losses related to the Company's hedging programs.

4) Related to expenses associated with subordinate voting shares granted to equity participants at the time of the Company's IPO and share option expense. As of August 1, 2018, share based compensation includes expenses related to the Company's LTIP.

5) Remuneration expense associated with contingent consideration for the Cardinal and SwimWays acquisition.

6) Impairment charges for intangible assets relating to licenses, content development, brands and trademarks.

7) Bad debt (recovery) expense related to the bankruptcy declaration and liquidation proceedings of TRU during the fourth quarter of 2019 and the first and fourth quarters of 2018.

8) Legal settlement in the Company's favour in the second quarter of 2018.

9) Amortization of fair market value adjustments to inventory relating to the acquisition of Gund in the second quarter of 2018.

10) Tax effect of adjustments (Footnotes 2-9). Adjustments are tax effected at the effective tax rate of the given year-to-date period.

11) The comparative information presented for 2018 has not been restated for the adoption of IFRS 16. On a pro forma basis, the impact of IFRS 16 on Adjusted EBITDA would be an increase of $2.4 million, $2.2 million, $3.4 million and $3.3 million for the first, second, third and fourth quarters of 2018, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity is cash flow from operations. In addition, as at December 31, 2019, the Company had $510 million available under its secured revolving credit facility ("Credit Facility"), which matures in July 2023. The Credit Facility may be used for general corporate purposes including refinancing existing indebtedness, funding working capital requirements, permitted acquisitions and permitted distributions. The Facility also has an option which permits the Company to increase the total capital available by an additional $200 million. As at December 31, 2019, the Credit Facility was undrawn.

On December 19, 2018, the Company entered into an uncommitted Overdraft Facility Agreement (the "European Facility") for $16.8 million (€15.0 million). The European Facility may be used to fund working capital requirements in Europe. As at December 31, 2019, the Credit Facility was undrawn.

The Company has a Credit Facility (the "Production Facility") with a limit of $7.7 million ($10 CAD million) to finance television and film production. The interest rate on amounts drawn under the Production Facility bear interest at a variable rate referenced to the lending institution's Canadian dollar prime rate. As at December 31, 2019, the Production Facility was undrawn.

As at December 31, 2019, unamortized debt issuance costs were $1.0 million.

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.

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, television shows, short-form content, mobile digital development as well as 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 generally comprised of the purchase of tooling used in the manufacturing process and entertainment property production.

CASH FLOW

The following tables provide a summary of Spin Master's consolidated cash flows for the three months and year ended December 31, 2019 and 2018:

	Three Months Ended Dec 31		
(All amounts in US$ millions)	**2019**	**2018**	**$ Change**
Net cash flows provided by operating activities	10.8	71.2	(60.4)
Net cash flows used in investing activities	(43.2)	(18.1)	(25.1)
Net cash flows used in financing activities	(5.5)	(0.1)	(5.4)
Net (decrease) increase in cash	**(37.9)**	**53.0**	**(90.9)**
Effect of foreign currency exchange rate changes on cash	1.8	(5.0)	6.8
Cash at beginning of period	151.4	95.4	56.0
Cash at end of period	**115.3**	**143.5**	**(28.2)**

	Year ended Dec 31		
(All amounts in US$ millions)	**2019**	**2018**	**$ Change**
Net cash flows provided by operating activities	98.4	192.9	(94.5)
Net cash flows used in investing activities	(116.2)	(159.5)	43.3
Net cash flows (used in) provided by financing activities	(13.7)	0.2	(13.9)
Net (decrease) increase in cash	**(31.5)**	**33.6**	**(65.1)**
Effect of foreign currency exchange rate changes on cash	3.3	(7.4)	10.7
Cash at beginning of period	143.5	117.3	26.2
Cash at end of period	**115.3**	**143.5**	**(28.2)**

Cash from Operating Activities as compared to the same period in 2018:

Cash flows provided by operating activities were $10.8 million for the three months ended December 31, 2019 compared to $71.2 million. For the year ended December 31, 2019, cash flows provided by operating activities were $98.4 million compared to $192.9 million. The decrease was primarily driven by lower cash from earnings and higher investment in net working capital, offset in part by lower cash income taxes paid.

The table below outlines key financial information pertaining to the Company's net working capital:

(All amounts in US$ millions)	Dec 31, 2019	Dec 31, 2018
Trade receivables, net[1]	370.7	266.8
Other receivables[2]	57.0	68.8
Inventories	185.3	110.1
Advances on royalties	18.0	18.4
Prepaid expenses	14.4	14.5
Total current assets	**645.4**	**478.6**
Trade payables	215.8	160.6
Accrued liabilities[3]	129.8	116.2
Contract liabilities	7.6	7.0
Provisions and contingent liabilities	26.2	29.2
Total current liabilities	**379.4**	**313.0**
Total net working capital	**266.0**	**165.6**

1) Trade receivables are net of allowance for doubtful accounts and provisions for sales allowances. Refer to Note 9 of the financial statements for additional details.

2) Other receivables include film and video production tax credits, royalties, commodity tax and other balances. Refer to Note 9 of the financial statements.

3) Accrued liabilities are comprised of employee compensation liabilities, royalties and commodity tax balances. Refer to Note 14 of the financial statements for additional details.

Trade receivables, net, increased by $103.9 million or 38.9% to $370.7 million at December 31, 2019 compared to $266.8 million, due to the shift in sales from the third quarter of 2019 to the fourth quarter of 2019 as well as continued growth into international markets.

Inventories increased by $75.2 million or 68.3% to $185.3 million at December 31, 2019 compared to $110.1 million. The increase at December 31, 2019 reflects the evolving retailer trend away from direct import orders towards domestic orders, the tighter management of portfolio brands using domestic replenishment, the timing of the purchase of inventories in anticipation of U.S. tariffs and the consolidation of the Company's U.S. east coast warehouse from four warehouses into one.

Trade payables increased by $55.2 million or 34.4% to $215.8 million at December 31, 2019 compared to $160.6 million, primarily due to higher inventory purchases and the timing of payments.

Accrued liabilities increased by $13.6 million or 11.7% to $129.8 million at December 31, 2019 compared to $116.2 million at December 31, 2018, primarily due to an increase in distribution related accruals.

Investing Activities as compared to the same period in 2018:

The following tables provide a summary of Spin Master's consolidated cash flows used in investing activities for the three months and year ended December 31, 2019 and 2018:

	Three Months Ended Dec 31		
(All amounts in US$ millions)	**2019**	**2018**	**$ Change**
Property, plant and equipment			
Tooling	5.2	2.4	2.8
Other	2.8	2.8	—
Total property, plant and equipment	**8.0**	**5.2**	**2.8**
Intangible assets			
Content development	20.5	10.4	10.1
Computer software	1.6	2.5	(0.9)
Total intangible assets	**22.1**	**12.9**	**9.2**
Total capital expenditures	**30.1**	**18.1**	**12.0**
Business acquisitions	13.1	—	13.1
Cash used in investing activities	**43.2**	**18.1**	**25.1**

Cash used in investing activities was $43.2 million for the three months ended December 31, 2019 compared to $18.1 million. The increase was primarily driven by the acquisition of Orbeez and increased investment in content development.

	Year ended Dec 31		
(All amounts in US$ millions)	**2019**	**2018**	**$ Change**
Property, plant and equipment			
Tooling	24.7	20.9	3.8
Other	16.2	32.6	(16.4)
Total property, plant and equipment	**40.9**	**53.5**	**(12.6)**
Intangible assets			
Content development	48.1	25.5	22.6
Computer software	5.2	3.5	1.7
Total intangible assets	**53.3**	**29.0**	**24.3**
Total capital expenditures	**94.2**	**82.5**	**11.7**
Proceeds from disposals	(0.5)	—	(0.5)
Business acquisitions	22.5	77.0	(54.5)
Cash used in investing activities	**116.2**	**159.5**	**(43.3)**

For the year ended December 31, 2019, cash used in investing activities was $116.2 million compared to $159.5 million. The decrease was primarily driven by lower cash outflows for acquisitions attributed to the acquisition of Hedbanz and Orbeez in 2019 compared to the acquisition of Gund in 2018 and lower investment in leasehold improvements, partially offset by increased investment in content development driven by the Company's growth strategy to develop evergreen entertainment properties.

Financing Activities as compared to the same period in 2018:

Cash flows used in financing activities were $5.5 million for the three months ended December 31, 2019 compared to nil. For the year ended December 31, 2019, cash flows used in financing activities were $13.7 million compared to cash flows provided by financing activities of $0.2 million, primarily driven by payment of lease liabilities in the current year.

Free Cash Flow as compared to the same period in 2018:

The following tables provide a reconciliation of Spin Master's consolidated Free Cash Flow (a non-IFRS measure) to cash from operations for the three months and year ended December 31, 2019 and 2018:

	Three Months Ended Dec 31		
(All amounts in US$ millions)	**2019**	**2018**	**$ Change**
Cash flows provided by operating activities	10.8	71.2	(60.4)
Changes in net working capital	(3.3)	(64.6)	61.3
Net cash flows provided by operating activities before net working capital changes	**7.5**	**6.6**	**0.9**
Cash flows used in investing activities	(43.2)	(18.1)	(25.1)
Cash used for license, brand and business acquisitions	13.1	—	13.1
Free Cash Flow[2]	**(22.6)**	**(11.5)**	**(11.1)**

	Year ended Dec 31		
(All amounts in US$ millions)	**2019**	**2018**	**$ Change**
Cash flows provided by operating activities	98.4	192.9	(94.5)
Changes in net working capital	79.9	19.1	60.8
Net cash flows provided by operating activities before net working capital changes	**178.3**	**212.0**	**(33.7)**
Cash flows used in investing activities	(116.2)	(159.5)	43.3
Cash used for license, brand and business acquisitions	22.5	77.0	(54.5)
Free Cash Flow[2]	**84.6**	**129.5**	**(44.9)**

[2]Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".

Free Cash Flow was negative $22.6 million for the three months ended December 31, 2019 compared to negative $11.5 million. The reduction in Free Cash Flow was driven by higher cash flows used in investing activities, excluding license, brand and business acquisitions.

For the year ended December 31, 2019, Free Cash Flow was $84.6 million compared to $129.5 million, a decrease of $44.9 million. The decrease in Free Cash Flow was primarily driven by lower cash flow provided by operating activities before net working capital changes and lower cash flow used for business acquisitions, partially offset by lower cash flow used in investing activities.

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, 2019, which are primarily for the leasing of offices and related office equipment and minimum guarantees due to licensors. The leases have been entered into with terms of between two and ten years in length and minimum guarantees to licensors are primarily due within 24 months, but can extend beyond 24 months.

	Less than 1 year to greater than 5 years			
(All amounts in US$ millions)	**<1 Year**	**1-5 Years**	**> 5 Years**	**Total**
Lease obligations - undiscounted	15.7	45.0	54.6	115.3
Guaranteed payments due to licensors	8.3	18.4	6.0	32.7
Total commitments	**24.0**	**63.4**	**60.6**	**148.0**

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.

CAPITALIZATION

Share Capital

As at March 4, 2020, there were 102.2 million shares outstanding comprised of 70.6 million Multiple Voting Shares and 31.5 million Subordinate Voting Shares.

As of March 4, 2020, pursuant to grants under the Company's Long-Term Incentive Plan, 0.3 million Subordinate Voting Shares were issuable under outstanding Restricted Stock Units, up to 0.8 million Subordinate Voting Shares were issuable under outstanding Performance Share Units (assuming vesting at a maximum of 200% for units with an outstanding performance period) and 0.8 million Subordinate Voting Shares were issuable under outstanding Share Option grants.

RISKS RELATING TO SPIN MASTER'S BUSINESS

An investment in securities of the Company involves significant risks. Investors should carefully consider the risks described below, the other information described elsewhere in this MD&A (as updated by subsequent interim MD&A) and those risks set out in the Company's AIF for the year ended December 31, 2019 before making a decision to buy securities of the Company. If any of the following or other risks occur, the Company's business, prospects, financial condition, financial performance and cash flows could be materially adversely impacted. In that case, the ability of the Company to make distributions to holders of Subordinate Voting Shares could be adversely affected, the trading price of securities of the Company could decline and investors could lose all or part of their investment in such securities. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the below described or other unforeseen risks.

If Spin Master does not create original, 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 and sell original products, brands and entertainment properties and to identify changing consumer sentiments 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 products, 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.

Spin Master also faces competition in the entertainment industry. Some of the Company's competitors in the content market have interests in multiple media businesses which are often vertically integrated. Spin Master's ability to compete in this market depends on a number of factors, including its ability to develop 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'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 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 third and fourth quarters. Generally, the first quarter is the period of lowest shipments and revenues in the toy industry and therefore, the least profitable because of certain fixed costs. 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 distribution and logistics 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.

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 resources.

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 resources. 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 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 may not be able to sustain or manage its growth strategy, 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.

Spin Master's dependence on third-party manufacturers, distributors, distribution centres and logistics service providers presents risks to the Company's business and exposes it to risks associated with international operations.

A majority of Spin Master's products are manufactured by third-party manufacturers, most of which are located in Asia and primarily in China, and transported, 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 service providers , or if there was any material failure, inadequacy or interruption resulting from its third-party service providers due to factors beyond the Company's control. Although Spin Master's external sources of manufacturing and its distribution centres and logistics service providers 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, and significant capital investments could be required to remediate the problem.

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 distribution centres and logistics service providers to transport its products to the markets in which they are sold and on third-party distributors to distribute those products within those markets. Any disruption affecting the ability of the Company's third-party service providers to timely deliver or distribute its products to its customers could cause delays in product sales, cause customers to cancel orders, have a material adverse effect on Spin Master's revenue and profitability, and harm its reputation.

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 strategies and patterns 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. In 2019, the three largest customers collectively accounted for approximately 48.0% 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 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.

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.

In addition to experiencing potentially lower revenues during times of economic difficulty, in an effort to maintain sales during such times, Spin Master may need to reduce the price of its products, increase promotional spending and/or sales allowances, offer incentives or take other steps to encourage retailer and consumer purchase of its products. Those steps may lower the Company's net revenues or increase our costs, thereby decreasing our operating margins and lowering our profitability. These challenges can be exacerbated if customers accumulate excess retail inventories over time due to their purchases of Spin Master's products exceeding sales of those products to ultimate consumers. It can then take the Company significant time, working with retailers, to reduce those excess retail inventories, and in the interim its sales of new products can be negatively impacted.

Failure to maintain existing relationships, or to develop new relationships, with 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 develop 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 content. A portion of Spin Master's entertainment properties, brands and content have been sourced from external collaborators. If Spin Master fails to maintain existing relationships or to develop 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 content, which in turn would materially and adversely harm its business, financial condition and performance.

Failure to leverage Spin Master's portfolio of franchises 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 business, financial condition and performance.

Risks Related to the Entertainment Industry.

The 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.

The business of producing and distributing television programs is highly competitive. There are numerous suppliers of entertainment content and Spin Master faces intense competition with other producers and distributors, many of whom are substantially larger and have greater resources. Further, vertical integration of the television broadcast industry worldwide and the creation and expansion of new networks, which create a substantial portion of their own programming, has decreased access for programs produced by third-party production companies. The Company competes with other television production companies for ideas and storylines created by third parties as well as for access to animation studios, writers, producers, 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.

Spin Master also faces competition from both regulated and unregulated players using existing or new technologies and from illegal services. The rapid deployment of new technologies, services and products have reduced the traditional lines between internet and broadcast services and further expanded the competitive landscape. The Company may also be affected by changes in customer discretionary spending patterns, which in turn are dependent on consumer confidence, disposable consumer income and general economic conditions. New or alternative media technologies and business models, such as video-on-demand, subscription-video-on-demand, high-definition television, personal video recorders, mobile television, internet protocol television, over-the-top internet-based video entertainment services, connected TVs, virtual multichannel programming distributors, audio streaming platforms, podcasting and direct-to-home satellite compete for audiences. As well, mobile devices like smartphones and tablets allow consumers to access content anywhere, anytime and are creating consumer demand for mobile, portable or free content. These technologies and business models may increase audience fragmentation. Technological developments may also disrupt traditional distribution platforms by enabling content owners to provide content directly to consumers, thus bypassing traditional content aggregators.

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 ultimately 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.

Production of film and television programs requires a significant amount of capital. Unforeseen events such as labour disputes, changes related to technology, special effects or other aspects of production, shortage of necessary equipment, or other unforeseen events affecting aspects of production 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 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.

Financial risks exist in productions relating to tax credits. There can be no assurance that industry funding assistance programs and government 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 or that Spin Master's production projects will continue to qualify for them. 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.

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 international growth strategy is subject to risks beyond its control, and accordingly, there can be no assurance that the Company's international growth strategy will be successful. The lack of success in the Company's international 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. 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. 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.

An increasing portion of Spin Master's business may come from new and emerging markets, and growing business in new and emerging markets presents additional challenges which could have a material adverse effect on the Company's business, financial condition and performance.

Spin Master expects an increasing portion of its revenues to come from new and emerging markets, including China and Russia. Operating in new and emerging markets, each with its own unique consumer preferences and business climates, presents additional challenges that Spin Master must meet. In addition, sales and operations in new and emerging markets are subject to other risks associated with international operations. Such risks include, but are not limited to: complications in complying with different laws in varying jurisdictions; dealing with changes in governmental policies and the evolution of laws and regulations that impact Spin Master's product offerings and related enforcement; difficulties understanding the retail climate, consumer trends, local customs and competitive conditions in foreign markets, which may be quite different from Canada and the U.S.; difficulties in moving materials and products from one country to another, including port congestion, strikes and other transportation delays and interruptions; potential challenges to Spin Master's transfer pricing determinations and other aspects of its cross border transactions; and the impact of tariffs, quotas, or other protectionist measures. Spin Master's business, financial condition and performance could be harmed if any of the risks described above are not appropriately managed, or if the Company is otherwise unsuccessful in managing its new and emerging market business.

Spin Master's success depends on 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 key personnel, including, designers, inventors, technical, sales, marketing and entertainment 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.

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, which 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.

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 Spin Master's 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.

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 meet product introduction schedules 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 increase its efficiency, reduce its costs, improve the execution of its core business, globalize and extend its brands, develop or extend entertainment properties, leverage new trends, create new brands or franchises, offer new innovative products and technologies, enhance product safety, develop its employees, improve productivity, simplify processes, maintain customer service levels, drive sales growth, 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 initiatives. In addition, Spin Master may anticipate introducing a specific product, product line or brand at a certain time in the future. There is no guarantee that Spin Master will be able to manufacture, source and ship new or continuing products in a timely manner and on a cost-effective basis. Unforeseen delays or difficulties in the development process or significant increases in the planned cost of development for new products may cause the introduction date for products to be later than anticipated or, in some situations, may cause a product or new product introduction to be discontinued. Failure to implement any of these initiatives, or the delay of the anticipated launch, or the failure of any of these initiatives or launches to produce the results anticipated by management, 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 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 content. 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 brands. 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.

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

Spin Master's operating procedures and requirements for both its own manufacturing facilities and 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.

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 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.

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.

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, Peso 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.

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 operates in a highly regulated environment in the U.S. and international markets, including its products and the importation and exportation of its products. These policies or regulations may include accounting standards, taxation requirements (including changes in applicable income tax rates, new tax laws, and revised tax law interpretations), product safety and other safety standards, trade restrictions, duties and tariffs (including international trade laws and regulations, export controls, and economic sanctions), and regulations regarding currency and financial matters, anticorruption standards (such as the U.S. Foreign Corrupt Practices Act), environmental matters, advertising directed toward children, product content, and privacy and data protection (such as the U.S. Children's Online Privacy Protection Act), as well as other administrative and regulatory restrictions. 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. 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.

Spin Master relies extensively on information technology in its operations, and any material failure in design, inadequacy, interruption, or security breach of that technology could have a material adverse impact on the Company's business, financial condition and performance.

Spin Master relies extensively on various information technology systems and software applications across its operations to manage many aspects of the business, including product development, management of its supply chain, sale and delivery of its products, financial reporting, collection and storage of data, and various other processes and transactions. Many of these systems are managed by third-party service providers. The Company is critically dependent on the integrity, security and consistent operations of these systems and related back-up systems. These systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, malware and other security breaches, catastrophic events such as hurricanes, fires, floods, earthquakes, tornadoes, acts of war or terrorism and usage errors by employees or partners. The efficient operation and successful growth of Spin Master's business depends on these information systems, including its ability to operate them effectively and to select and implement appropriate upgrades or new technologies and systems and adequate disaster recovery systems successfully. The failure of the information systems design, to perform as designed or Spin Master's failure to implement and operate them effectively could disrupt the Company's business, require significant capital investments to remediate a problem or subject the Company to liability and could have a material adverse effect 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, may be unable to detect an ongoing breach or may be delayed in detecting a 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.

Natural disasters or other catastrophic events out of Spin Master's control may damage its operations, facilities or those of its contractors and could materially and adversely affect the Company's business, financial condition and performance.

A catastrophic event where Spin Master has operations, offices or manufacturing facilities, such as an earthquake, tsunami, flood, typhoon, fire or other natural or manmade disaster, terrorist attacks, wars and other conflicts, or an outbreak of a public health pandemic could disrupt the Company's operations or those of its contractors and impair production or distribution of its products, damage inventory, interrupt critical functions, or otherwise affect its business negatively, and could materially and adversely affect the Company's business, financial condition and performance.

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.

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.

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-U.S. dollar denominated financial statements of the Company's subsidiaries may vary on translation into the U.S. 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 48.0% and 47.9% of consolidated gross product sales for the year ended December 31, 2019 and 2018 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

The Company periodically engages the services of a law firm whose managing partner is also a member of the Company's Board of Directors. During the year ended December 31, 2019, the fees for services rendered were approximately $0.5 million (2018 - $0.8 million).

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in Note 3 of the Company's fiscal 2019 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 inventories

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 allowances requested by customers relating to contractual discounts, negotiated discounts, customer audits, defective products and costs incurred by customers to sell the Company's products. Certain allowances are fixed and determinable at the time of sale and are recorded at the time of sale as a reduction to revenue. Other allowances can vary depending on future outcomes such as customer sales volume. The allowance is based on the Company's evaluation of the likelihood of the outcome of sales allowance claims. The Company considers various factors including customer terms, historical experience, any expected deviations from historical experience and existing or expected market conditions. The Company adjusts its estimate at least quarterly, or when facts and circumstances used in the estimation process may change.

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 3 Business Combinations

The IASB published amendments to IFRS 3 "Business Combinations". The amendment clarifies the definition of a business and outputs. The amendment also adds guidance that determines if substantive processes have been acquired or if an acquired set of activities and assets is a business. The amendments are effective for fiscal years beginning on or after January 1, 2020. The Company will apply these amendments and additions to IFRS 3 to applicable future acquisitions.

FINANCIAL INSTRUMENTS

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

As at December 31, 2019, the Company is committed under outstanding foreign exchange contracts to purchase US$, representing total purchase commitments of approximately $15.8 million (2018 - $39.3 million).

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, 2019 and have concluded that the Company's DC&P was effective as at December 31, 2019.

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, 2019 and have concluded that the Company's ICFR was effective as at December 31, 2019.

In July 2019, Spin Master successfully implemented an upgrade to the Enterprise Resource Planning (ERP) system globally. As a result, financial and operating transactions are recorded utilizing modern functionality provided by the new upgraded system. This new system is not in response to any identified deficiency or weakness in ICFR. The system implementation was designed, in part, to enhance the overall system of ICFR through further automation of various business processes. Except for the preceding change, there have been no changes in the Company's ICFR during the year ended December 31, 2019 which have materially affected, or are reasonably likely to materially affect, the Company's ICFR and its disclosure controls and procedures.

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 "EBITDA", "Adjusted EBITDA", "Adjusted EBITDA Margin", "Adjusted Net (Loss) Income", "Free Cash Flow", "Gross Product Sales", "Constant Currency", "Sales Allowances" and "Total Net 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.

EBITDA is calculated as net (loss) earnings before finance costs, income tax expense and depreciation and amortization.

Adjusted EBITDA is calculated as EBITDA excluding adjustments that do not necessarily reflect the Company's underlying financial performance. These adjustments include restructuring expenses, foreign exchange gains or losses, equity-settled share based compensation expenses, impairment of intangible assets, fair market value adjustments to acquired inventories, acquisition related incentive compensation, legal settlement, transaction costs, royalty recovery and bad debt expense. Adjusted EBITDA is used 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 (Loss) Income is calculated as net (loss) income excluding adjustments, as defined above, and the corresponding impact these items have on income tax expense. Management uses Adjusted Net (Loss) Income to measure the underlying financial performance of the business on a consistent basis over time.

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.

Free Cash Flow is calculated as cash flows provided by/used in operating activities before changes in net working capital and after cash flows used in investing activities before cash used in license, brand and business acquisitions. 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 Sales Allowances. As Sales Allowances are generally not associated with individual products, the Company uses changes in Gross Product Sales to provide meaningful comparisons across product category and geographical segment results to highlight trends in Spin Master's business. For a reconciliation of Gross Product Sales to Revenue, please see the revenue table for the three months and year ended December 31, 2019 as compared to the same period in 2018 in this MD&A.

Sales Allowances represent marketing and sales credits requested by customers relating to factors such as cooperative advertising, contractual discounts, negotiated discounts, customer audits, volume rebates, defective products and costs incurred by customers to sell the Company's products and are recorded 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.

Total Net Sales represents Gross Product Sales less Sales Allowances. Management uses Total Net Sales to evaluate the Company's total net revenue generating capacity compared to internal targets and as a measure of Company performance.

Adjusted Administrative Expenses is calculated as administrative expenses restructuring expenses, equity-settled share based compensation expenses, bad debt expense related to Toys "R" Us and acquisition related incentive compensation. Please see the Adjusted Administrative Expenses table for the three months and year ended December 31, 2019 as compared to the same period in 2018 in this MD&A.

Management believes the non-IFRS measures defined above 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 these measures 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, 2019, 2018 and 2017:

	Year ended Dec 31		
(All amounts in US$ millions)	**2019**	**2018[13]**	**2017[13]**
Reconciliation of Non-IFRS Financial Measures			
Net income	64.3	154.9	161.1
Income tax expense	20.7	53.5	59.4
Finance costs	11.7	9.4	10.4
Depreciation and amortization	84.6	74.2	44.9
EBITDA[1]	**181.3**	**292.0**	**275.8**
Adjustments:			
Restructuring expense[2]	8.8	7.2	1.7
Foreign exchange loss (gain)[3]	5.8	(9.3)	(11.4)
Share based compensation[4]	15.2	12.2	10.1
Impairment of intangible assets[5]	5.6	—	9.0
Acquisition related incentive compensation[6]	3.2	1.2	—
Bad debt (recovery) expense[7]	(0.9)	12.1	5.4
Legal settlement[8]	—	(15.5)	—
Amortization of fair market value adjustments[9]	—	3.7	2.8
Transaction costs[10]	—	—	1.0
Royalty recovery[11]	—	—	(2.2)
Adjusted EBITDA[1, 13]	**219.0**	**303.6**	**292.2**
Income tax expense	20.7	53.5	59.4
Finance costs	11.7	9.4	10.4
Depreciation and amortization	84.6	74.2	44.9
Tax effect of adjustments[12]	9.2	3.0	4.5
Adjusted Net Income[1]	**92.8**	**163.5**	**173.0**
Cash provided by operating activities	98.4	192.9	267.4
Changes in net working capital	79.9	19.1	(16.8)
Cash provided by operating activities before net working capital changes	**178.3**	**212.0**	**250.6**
Cash used in investing investing activities	(116.2)	(159.5)	(81.6)
Cash used for license, brand and business acquisitions	22.5	77.0	24.4
Free Cash Flow[1]	**84.6**	**129.5**	**193.4**

1) See "Non-IFRS Financial Measures".

2) Restructuring expense primarily relates to personnel related costs. In the second quarter of 2019 and fourth quarter of 2018, restructuring expenses also included costs related to facility closures.

3) Includes foreign exchange gains/losses generated by the translation of monetary assets/liabilities denominated in a currency other than the functional currency of the applicable entity and gains/losses related to the Company's hedging programs.

4) Related to expenses associated with subordinate voting shares granted to equity participants at the time of the IPO and share option expense. As of August 1, 2018, share based compensation includes expenses related to the Company's LTIP.

5) Impairment of intangible assets related to content development, licenses, brands and trademarks.

6) Remuneration expense associated with contingent consideration for the Cardinal and SwimWays acquisition, respectively.

7) Net bad debt (recovery) expense related to the bankruptcy declaration and liquidation proceedings of TRU during the fourth quarter of 2019, the first quarter of 2018 and third quarter of 2017.

8) Legal settlement in the Company's favour in the second quarter of 2018.

9) Amortization of fair market value adjustments to inventory relating to the acquisition of Gund in the second quarter of 2018; Marbles and Aerobie in the second and third quarters of 2017, respectively; and SwimWays in the third quarter of 2016.

10) Transaction costs relating to Marbles acquisition in the second quarter of 2017.

11) Royalty income recovery related to 2017.

12) Tax effect of adjustments (Footnotes 2-11). Adjustments are tax effected at the effective tax rate of the given period.

13) The comparative information presented for 2018 and 2017 has not been restated for the adoption of IFRS 16. On a pro forma basis, the impact of IFRS 16 on Adjusted EBITDA for 2018 and 2017 would be an increase of $11.3 million and $8.8 million, respectively.

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 2020 (see "Outlook"); future growth expectations; financial position, cash flows and financial performance; drivers for such growth; the resolution of logistics problems; impact of acquisitions on future financial performance; the successful execution of its strategies for growth; other economic and public health conditions or regulatory changes in the markets in which we and our customers, suppliers and manufacturers operate, such as higher commodity prices, labor costs or transportation costs, or outbreaks of disease, such as COVID-19, the occurrence of which could create work slowdowns, delays or shortages in production or shipment of products, increases in costs or delays in revenue; 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 ability of factories to manufacture products, including labour size and allocation, tooling, raw material and component availability, ability to shift between product mix, and customer acceptance of delayed delivery dates; 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's key personnel 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 the Annual MD&A and the Company's most recent AIF, 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.

Spin Master Corp.

Annual consolidated financial statements

For the years ended December 31, 2019 and December 31, 2018

Deloitte.

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Independent Auditor's Report

To the Shareholders of
Spin Master Corp.

Opinion

We have audited the consolidated financial statements of Spin Master Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of earnings and comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Steven Lawrenson.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
March 4, 2020

Spin Master Corp.
Consolidated statements of financial position

(US$ millions)	Notes	Dec 31, 2019	Dec 31, 2018
Assets			
Current assets			
Cash		115.3	143.5
Trade receivables	**9**	370.7	266.8
Other receivables	**9**	57.0	68.8
Inventories	**10**	185.3	110.1
Advances on royalties		18.0	18.4
Prepaid expenses		14.4	14.5
		760.7	**622.1**
Non-current assets			
Intangible assets	**12**	182.4	165.8
Goodwill	**13**	138.8	124.2
Right-of-use assets	**21**	78.3	—
Property, plant and equipment	**11**	66.8	56.0
Deferred income tax assets	**8**	26.2	21.0
Advances on royalties		3.2	10.1
		495.7	**377.1**
Total assets		**1,256.4**	**999.2**
Liabilities			
Current liabilities			
Trade payables and accrued liabilities	**14**	345.6	276.8
Contract liabilities	**14**	7.6	7.0
Provisions and contingent liabilities	**16**	26.2	29.2
Income tax payable	**8**	4.5	6.5
Lease liabilities	**21**	15.1	—
		399.0	**319.5**
Non-current liabilities			
Provisions and contingent liabilities	**16**	9.0	1.7
Deferred income tax liabilities	**8**	20.4	15.5
Lease liabilities	**21**	67.6	—
		97.0	**17.2**
Total liabilities		**496.0**	**336.7**
Shareholders' equity			
Share capital	**17**	714.5	694.1
Accumulated deficit		(28.1)	(92.4)
Contributed surplus		35.8	40.9
Accumulated other comprehensive income		38.2	19.9
Total shareholders' equity		**760.4**	**662.5**
Total liabilities and shareholders' equity		**1,256.4**	**999.2**

Approved by the Board of Directors on March 4, 2020.

The accompanying notes on pages 5 to 41 are an integral part of these consolidated financial statements.

Spin Master Corp.
Consolidated statements of earnings and comprehensive income

(US$ millions, except earnings per share)	Notes	2019	2018
Revenue	4	1,581.6	1,631.5
Cost of sales		796.6	812.7
Gross profit		**785.0**	**818.8**
Expenses			
Selling, marketing, distribution and product development	7	395.4	331.9
Administrative expenses	7	247.9	278.4
Depreciation and amortization expenses	7	32.6	14.7
Other expenses (income)	5	6.6	(14.7)
Foreign exchange loss (gain)		5.8	(9.3)
Finance costs	6	11.7	9.4
Income before income tax expense		**85.0**	**208.4**
Income tax expense	8	20.7	53.5
Net income		**64.3**	**154.9**
Earnings per share			
Basic	18	0.63	1.52
Diluted	18	0.62	1.51

(US$ millions, except earnings per share)	2019	2018
Net income	64.3	154.9
Items that may be subsequently reclassified to net income		
Foreign currency translation gain (loss) on foreign operations	18.3	(25.9)
Other comprehensive income (loss)	**18.3**	**(25.9)**
Total comprehensive income	**82.6**	**129.0**

The accompanying notes on pages 5 to 41 are an integral part of these consolidated financial statements.

Spin Master Corp.

Consolidated statements of changes in shareholders' equity

(US$ millions)	Note	Share capital	Accumulated deficit	Contributed surplus	Accumulated other comprehensive income	Total
January 1, 2018		**681.3**	**(247.3)**	**20.3**	**45.8**	**500.1**
Net income		—	154.9	—	—	**154.9**
Other comprehensive loss, net of tax		—	—	—	(25.9)	**(25.9)**
Share-based compensation	**17**	—	—	12.2	—	**12.2**
Shares released from equity participation	**17**	8.5	—	(8.5)	—	**—**
Exercise of share options	**17**	0.4	—	(0.1)	—	**0.3**
Shares issued upon settlement of LTIP	**17**	3.9	—	—	—	**3.9**
Change in LTIP settlement method	**17**	—	—	17.0	—	**17.0**
December 31, 2018		**694.1**	**(92.4)**	**40.9**	**19.9**	**662.5**

(US$ millions)	Note	Share capital	Accumulated deficit	Contributed surplus	Accumulated other comprehensive income	Total
January 1, 2019		**694.1**	**(92.4)**	**40.9**	**19.9**	**662.5**
Net income		—	64.3	—	—	**64.3**
Other comprehensive income, net of tax		—	—	—	18.3	**18.3**
Share-based compensation	**17**	—	—	15.2	—	**15.2**
Shares released from equity participation	**17**	8.4	—	(8.4)	—	**—**
Exercise of share options	**17**	0.2	—	(0.1)	—	**0.1**
Shares issued upon settlement of LTIP	**17**	11.8	—	(11.8)	—	**—**
December 31, 2019		**714.5**	**(28.1)**	**35.8**	**38.2**	**760.4**

The accompanying notes on pages 5 to 41 are an integral part of these consolidated financial statements.

Spin Master Corp.
Consolidated statements of cash flows

(US$ millions)	Notes	Dec 31, 2019	Dec 31, 2018
Operating activities			
Net income		64.3	154.9
Adjustments to reconcile net income to cash provided by operating activities			
Income tax expense	**8**	20.7	53.5
Interest (income) expense	**6**	(1.6)	0.3
Depreciation and amortization	**7**	84.6	74.2
Amortization of fair value increments to inventories previously acquired		—	3.7
Accretion expense - lease liabilities	**6**	4.8	—
Accretion expense - other	**6**	1.7	2.3
Amortization of financing costs	**6**	0.9	0.9
Impairment of intangible asset and property, plant and equipment	**5, 11, 12**	5.6	1.1
Share-based compensation expense	**17**	15.2	12.2
Net change in non-cash working capital balances	**19**	(79.9)	(19.1)
Net change in provisions and contingent consideration liabilities		7.2	(4.0)
Income taxes paid		(27.0)	(76.0)
Interest received (paid)		1.9	(0.5)
Share-based compensation payments		—	(10.6)
Cash provided by operating activities		**98.4**	**192.9**
Investing activities			
Investment in property, plant and equipment	**11**	(40.9)	(53.5)
Investment in intangible assets	**12**	(53.3)	(29.0)
Proceeds from disposal of property, plant and equipment	**11**	0.5	—
Business acquisitions	**23**	(22.5)	(77.0)
Cash used in investing activities		**(116.2)**	**(159.5)**
Financing activities			
Payment of lease liabilities	**21**	(13.8)	—
Issuance of common shares from exercise of share options		0.1	0.2
Proceeds from borrowings	**15**	—	45.0
Repayment of borrowings	**15**	—	(45.0)
Cash (used in) provided by financing activities		**(13.7)**	**0.2**
Effect of foreign currency exchange rate changes on cash		**3.3**	**(7.4)**
Net (decrease) increase in cash during the period		**(28.2)**	**26.2**
Cash, beginning of period		143.5	117.3
Cash, end of period		**115.3**	**143.5**

The accompanying notes on pages 5 to 41 are an integral part of these consolidated financial statements.

1. Description of business

Spin Master Corp., (the "Company") was incorporated on June 9, 2004, under the laws of the Province of Ontario, Canada. The Company is a 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. The Company's headquarters is located at 225 King Street West, Suite 200, Toronto, Canada, M5V 3M2.

The Company has three reportable operating segments: North America, Europe and Rest of World (see Note 25). The North American segment is comprised of the United States and Canada. The European segment is comprised of the United Kingdom, France, Italy, the Netherlands, Germany, Austria, Switzerland, Belgium, Luxembourg, Slovakia, Hungary, Romania, Czech Republic, Poland, Russia and Greece. The Rest of World segment is primarily comprised of Hong Kong, China, Vietnam, India, Australia and Mexico, as well as all other areas of the world serviced by the Company's distribution network.

2. Summary of significant accounting policies

(A) Statement of compliance and basis of preparation and measurement

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") with interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

All financial information is presented in millions of United States dollars ("US$") and has been rounded to the nearest hundred thousand, except as otherwise indicated. As a result, some prior year results may not agree to previously published financial statements due to rounding. The impact of these rounding adjustments do not have a material effect on the Company's financial statements.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 4, 2020.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is measured on the fair value of the consideration provided in exchange for goods and services.

(B) Application of new and revised IFRS

IFRS 16 Leases

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. The Company, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Company has applied IFRS 16 using the modified retrospective method and has elected to set the right-of-use asset equal to the lease liability. The cumulative effect of initial application recognized in retained earnings at January 1, 2019 is nil. Accordingly, the comparative information presented for 2018 has not been restated and is presented as previously reported under IAS 17 and related interpretations. The Company has elected to not recognize right-of-use assets or lease liabilities for short-term leases and leases for which the underlying asset is of low value.

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease.* The Company now determines whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation or impairment losses and adjusted for certain re-measurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company primarily uses its incremental borrowing rate as the discount rate. The weighted average discount rate used was 6.1%. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate,

2. Summary of significant accounting policies *(continued)*

(B) Application of new and revised IFRSs (continued)

changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. The Company did not have any finance leases historically. All leases were recognized as operating leases.

The Company has applied judgment to determine both the applicable discount rate as well as the lease term for certain lease contracts in which it is a lessee that include renewal options. The discount rate is based on the Company's incremental borrowing rate and reflects the rate of interest the Company would have to pay to borrow over a similar term and similar security, the funds necessary to obtain an asset of similar value. The assessment of whether the Company is reasonably certain to exercise renewal options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

On transition to IFRS 16, the Company recognized right-of-use assets and corresponding lease liabilities of $83.4 million on January 1, 2019. The Company has recognized depreciation expense of $13.0 million in administrative expenses and accretion expense of $4.8 million in finance costs in the consolidated statements of operations and comprehensive income for the year ended December 31, 2019.

Lease liabilities recognized in the consolidated statement of financial position on the date of transition:

Reconciliation of IFRS 16 transitional impact	**Jan 1, 2019**
Operating lease commitments as at December 31, 2018	69.5
Discounted using the incremental borrowing rate at the date of initial application	56.5
Adjustments for renewal options reasonably certain to be exercised	19.8
Contracts assessed as leases under IFRS 16	7.1
Lease liabilities recognized	**83.4**

IFRIC 23 Uncertainty over income tax treatments

In June 2017, the International Accounting Standards Board ("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 an entity determines taxable profit (or loss), tax bases, unused tax losses, credits and 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 amendments and additions to IFRIC 23 do not have an impact on the Company's consolidated financial statements or financial results.

(C) Basis of preparation

The consolidated financial statements incorporate the financial statement accounts of the Company and entities controlled by the Company and its subsidiaries (the “Group”). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of operations and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

2. Summary of significant accounting policies *(continued)*

(C) Basis of preparation (continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(D) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustment against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with the relevant policy. Changes in the fair value of contingent consideration classified as equity are not recognized.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known would have affected the amounts recognized at that time.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is measured as the excess of the sum of the consideration transferred, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. For the purposes of impairment testing, goodwill is allocated to each of the Company's Cash-Generating Units ("CGUs") (or groups of CGUs) that are expected to benefit from the combination.

(E) Goodwill

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit.

Any impairment loss for goodwill is recognized directly in profit or loss, and an impairment loss recognized for goodwill is not reversed in subsequent periods. On disposal of the relevant CGU, the attributed amount of goodwill is included in the determination of the profit or loss on disposal.

(F) Revenue recognition

Sale of Goods

The majority of the Company's revenue is derived from the sales of toys and related products to retail customers and distributors in select international markets. Revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company recognizes revenue when control of the goods has transferred, which is determined by respective shipping terms and certain additional considerations. Invoices are generally issued at the time of delivery (which is when the Company has satisfied its performance obligations under the arrangement). As such, a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is due. The

2. Significant accounting policies *(continued)*

(F) Revenue recognition (continued)

Company does not have performance obligations subsequent to delivery on the sale of goods to customers and revenues from sale of goods are recognized upon passing of control to the customer.

The Company routinely enters into arrangements with its customers to provide sales incentives, support customer promotion and provides allowances for returns and defective merchandise. Such programs are based primarily on purchases, customer performance of specified promotional activities and other specified factors which are not necessarily stipulated in the customers contract.

Revenue represents the amount of consideration to which the Company expects to be entitled to through the sale of goods excluding sales tax and after the application of the variable consideration constraint. Variable consideration includes estimates for defective products, sales allowances and returns by customers made based on certain judgments, contractual terms and conditions and historical data. The Company uses the expected value method to quantify the variable consideration. The Company monitors periodic results against historical data and makes any adjustments to both sales discounts and returns accruals as required. Note 3 - Significant accounting judgments and estimates outlines additional details on sales allowances.

Television distribution, royalty and license sales

Television distribution sales, which are generated by the use of the Company's brands and other intellectual property through the production of television and streaming programming for licensing to third parties, are recognized in accordance with the relevant agreements. The license agreement is assessed as either providing the customer with a 'right-to-use' or 'right-to-access' license and the applicable revenue is recognized at a point-in-time or over time based on the classification determined. The license to distribute television and streaming programming grants a right to use the Company's brands and other intellectual property. The licensee pays a fixed fee for the license of the produced content. Revenue is recognized upon delivery of the television or streaming programming and is measured based on the consideration to which the Company expects to be entitled to upon delivery. There are no future performance obligations associated with the delivery of the programs.

For royalty and licensing revenues that are generated by the use the Company’s brands and other intellectual property, the license is assessed as either providing the customer with a ‘right-to-use’ or ‘right-to-access’ license and revenue is recognized at a point-in-time or over time based on the classifications determined. Judgment is required in determining the appropriate classification. The license of the Company’s brands provide access to the intellectual property over the term of the license and is considered a right-to-access license of intellectual property. The Company records sales-based or usage-based royalty revenues for right-to-access licenses upon occurrence of the licensees’ subsequent sale or usage.

Customer advances on contracts, licensing and/or television distribution, are recorded in contract liabilities until all of the foregoing revenue recognition conditions have been met. This does not give rise to a significant financing component as the timing difference between when the customer advances are recorded and the revenue recognition conditions being fulfilled are protective for both parties of a contract, to protect against failure of completion of some of their obligations under the contract.

Digital applications ("apps")

The Company develops apps which are hosted by third-party platform providers. The Company controls all aspects of the apps delivered to the end user. The third party platform providers are providing the service of hosting and administrating receipt from the end users. The Company has determined that it is the principal in the arrangement and revenues are recorded in other revenue on a gross basis. The fees charged by the third-party platform providers are recorded within cost of sales. Revenue associated with the sale of apps are recognized when control is transferred. This condition is typically met when the end-user purchases and downloads the app from the third-party. The end users can make in-app purchases and the Company recognizes revenue at the time of sale. The Company has no additional performance obligations other than delivery of apps to the third-party platform providers.

Disaggregation of revenue

The Company disaggregates its revenues from contracts with customers by segment: North America, Europe and Rest of World. The Company further disaggregates revenues by category: Activities, games & puzzles and plush, Remote control and interactive characters, Boys action and construction, Pre-school and girls and Outdoor. The Company believes these collectively depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. See Note 25 Segment information for further information.

2. Significant accounting policies *(continued)*

(G) Leases

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognizes the leases as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are assumed.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate. The incremental borrowing rate is defined as the rate of interest that the Company would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Right-of-use asset

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Company applies IAS 36 *Impairment of Assets* to determine whether a right-of-use asset is impaired.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line administrative expenses in the consolidated statements of operations and comprehensive income.

2. Significant accounting policies *(continued)*

(G) Leases (continued)

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has elected to use this practical expedient.

(H) Foreign currencies

The Company reports its financial results in United States Dollars ("US$"); however, the functional currency of the Company is the Canadian dollar.

The assets and liabilities of foreign operations that have a functional currency different from that of the Company, including goodwill and fair value adjustments arising on acquisition, are translated into the Company's functional currency of Canadian dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in the foreign currency translation adjustment as part of other comprehensive income.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the Group entity's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. The resulting foreign currency exchange gains or losses are recognized in net income or loss.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into US$ using exchange rates prevailing at the end of each reporting period. Income and expense items are translated in the same manner as above with exchange differences impacting other comprehensive income and accumulated in equity.

At December 31, 2019 and 2018, the functional currencies of the Groups subsidiaries included the Canadian dollar, the Euro, the Great Britain pound, the Hong Kong dollar, the Mexican peso, the Chinese yuan, the Vietnam dong, the Japan yen, the Swedish krona, the Australian dollar, the Indian rupee, Polish zloty, and the Russian ruble.

(I) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing net income by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding, assuming the conversion of all dilutive securities were exercised during the period. Securities refer to all outstanding stock options, Restricted Share Units ("RSUs") and Performance Share Units ("PSUs").

(J) Income taxes

Income tax expense represents the sum of the taxes currently payable and deferred taxes.

Current tax

For each entity in the Group, the tax currently payable is based on taxable income for the year. Taxable income differs from "income before income tax expense" as reported on the consolidated statement of operations and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax expense is calculated using income tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

2. Significant accounting policies *(continued)*

(J) Income taxes (continued)

Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than a business combination) of assets and liabilities in a transaction that does not affect either taxable income or net income before income taxes. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the income tax rates that are expected to apply in the period in which the liability is expected to be settled or the asset realized, based on income tax rates (and income tax laws) that have been enacted or substantively enacted at the end of the reporting period, reflecting the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the period

Current and deferred tax expense are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax expenses are also recognized in other comprehensive income or directly in equity, respectively. Where current deferred taxes arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(K) *Cash*

Cash is net of outstanding bank overdrafts, if applicable.

(L) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to depreciate the cost or valuation of assets less their residual values over their useful lives, using the straight-line method or declining balance method. Repairs and maintenance costs are recognized in profit or loss as incurred.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The following are the estimated useful lives for the major classes of property, plant and equipment:

Land	Not depreciated
Buildings	30 years
Moulds, dies and tools	2 years
Office equipment	3 years
Leasehold improvements	Lesser of lease term or 5 years
Computer hardware	3 years
Machinery and equipment	30% declining balance

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognized in profit or loss.

2. **Significant accounting policies *(continued)***

(M) Intangible assets

The following are the estimated useful lives for the major classes of intangible assets:

Brands	Indefinite
Character trademarks	5 years
Customer lists	5 years
Intellectual property ("IP")	10 years
Content development	2-5 years
Computer software	2-5 years

Intangible assets acquired separately in an asset acquisition

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if any.

Amortization is recognized on a straight-line basis over the estimated useful life of the intangible assets. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives, such as brands that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair values at the acquisition date (which is regarded as their initial cost).

Subsequent to initial recognition, intangible assets acquired in business combinations are reported at cost less accumulated amortization if applicable and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Internally-generated intangible assets - research and development expenditures

Expenditures on research activities are recognized as incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized only if all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset for use or sale;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditures are recognized in profit or loss in the period in which they are incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Television production assets

Television production assets are a component of intangible assets and are recorded at cost as content development. The Company has access to government programs, including tax credits that are designed to assist film and television production and distribution in Canada. The federal and provincial tax credits are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the tax credits will be received. Capitalized costs net of expected federal and provincial tax credits are charged to amortization expense as completed episodes are delivered on a pro-rata basis over the total number of episodes for the season.

2. Significant accounting policies *(continued)*

(M) Intangible assets (continued)

Contract liabilities related to television production assets arises as a result of consideration received in advance of the Company fulfilling its obligations.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, otherwise, they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives or that are not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss equal to the difference between the carrying and recorded amounts is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(N) Advances on royalties

The Company enters into license agreements with inventors and licensors for the use of their intellectual properties in its products. These agreements may call for payment in advance or future payment of minimum guaranteed amounts. Amounts paid in advance are initially recorded as an asset and subsequently expensed to net income or loss as revenue from the related products is recognized. If all or a portion of an advance does not appear to be recoverable through future use of the rights obtained under license, the non-recoverable portion is expensed immediately in profit or loss.

(O) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a standard cost basis, and includes the purchase price and other costs, such as import duties, taxes and transportation costs. Trade discounts and rebates are deducted from the purchase price. Net realizable value represents the estimated selling price for inventories in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale. Reserves for excess and obsolete inventory are based upon quantities on hand, projected volumes from demand forecast and net realizable value. The impact of changes in inventory reserves is reflected in cost of sales.

(P) Provisions and contingent liabilities

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of the amount expected to be required to settle the obligation and are re-measured each reporting date.

Future royalty obligations

Where the Company is committed to pay royalties on sales of acquired brands, the future royalty obligation is based on the Company’s estimate of the related brands future sales, discounted for the timing of expected payments.

2. Significant accounting policies *(continued)*

(P) Provisions and contingent liabilities (continued)

Provision for defectives

Defectives refer to when the end consumer returns defective goods to the Company's customers. Customers without a fixed allowance for defectives are eligible for a credit for the cost of the product if returned as defective by the end consumer. The estimate of defectives is made based on the class and nature of the product and is recorded as a reduction to revenue in the consolidated statements of operations and comprehensive income.

Supplier obligations

Supplier obligations represent the estimated compensation to be paid to suppliers for lower than expected volumes purchased, resulting in the supplier having excess raw material and finished goods inventories. While payments are not contractually required, the Company regularly compensates suppliers to maintain supplier relationships, which represents a constructive obligation due to past practices. The supplier obligation is based on an estimate of the cost of the supplier's excess raw material and finished goods inventory.

Share-based payments

As part of the Company's Initial Public Offering (the "Initial Offering"), employees were granted subordinate voting shares through equity participation arrangements. The Initial Offering price multiplied by the number of shares that an employee was entitled to receive is recognized as an expense in administrative expenses, with a corresponding increase in contributed surplus over the vesting period, at the end of which, the employees become unconditionally entitled to the shares. The amount expensed is adjusted for forfeitures as required.

The Company has one share option plan for key employees, which forms part of their long-term incentive compensation plan. Under the plan, the exercise price of each option equals the market price of the Company's share on the date of grant and the options have a maximum term of ten years. Options vest between zero and four years.

The Company has an equity based compensation plan providing for the issuance of securities from treasury under which the grants will be made by the Company. Under the long-term incentive plan ("LTIP"), the Board may at its discretion from time to time, grant share options, share units (in the form of RSUs and PSUs), Stock Appreciation Rights ("SARs"), restricted stock and any other equity based awards.

Pursuant to the LTIP plans, the awards may be settled in cash or shares at the option of the Company. Prior to August 1, 2018, the Company settled LTIP awards in cash, resulting in their recognition as liabilities, which were marked to market each period. Effective August 1, 2018, settlements of existing and new LTIP awards occur through the issuance of equity shares. As a result, effective August 1, 2018, the LTIP liabilities were reclassified to shareholders equity and are no longer marked to market.

(Q) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the respective instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Fair value estimates are made at the consolidated statement of financial position date based on relevant market information and information about the financial instrument. All financial instruments are classified into either: fair value through profit or loss ("FVTPL") or amortized cost.

2. Significant accounting policies *(continued)*

(Q) Financial instruments (continued)

The Company has made the following classifications:

Cash	Amortized cost
Trade and other receivables	Amortized cost
Other long-term assets	Amortized cost
Trade payables and other liabilities	Amortized cost
Borrowings	Amortized cost
Interest payable	Amortized cost
Other long-term liabilities	Amortized cost
Foreign exchange forward contracts	FVTPL

(R) Financial assets

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at amortized cost

Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition. Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been decreased.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are offset against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. Loss allowances are based on the lifetime ECLs that result from all possible default events over the expected life of the trade receivable, using the simplified approach.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

2. Significant accounting policies *(continued)*

(S) Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized as the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities (including loans and borrowings and trade payables and other liabilities) are initially measured at fair value, net of transaction costs. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(T) Derivative financial instruments

The Company enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risks.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently re-measured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss.

(U) Fair value hierarchy and liquidity risk disclosure

Fair value measurements are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of short-term financial instruments approximates their carrying amounts due to the relatively short period to maturity. These include cash, trade and other receivables, as well as trade payables and other liabilities and provisions. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future.

(V) Accounting standards issued but not yet adopted

IFRS 3 Business Combinations

The IASB published amendments to IFRS 3 "Business Combinations". The amendment clarifies the definition of a business and outputs. The amendment also adds guidance that determines if substantive processes have been acquired or if an acquired set of activities and assets is a business. The amendments are effective for fiscal years beginning on or after January 1, 2020. The Company will apply these amendments and additions to IFRS 3 to applicable future acquisitions.

3. Significant accounting judgments and estimates

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. As these estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, actual results may differ. The estimates and underlying assumptions are reviewed on an ongoing basis. Adjustments are recognized in the period in which the estimate is modified if the change affects only that period, or in the period the estimate is modified and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The Company has identified the following judgments, apart from estimates, which management has made in the process of applying the Company's accounting policies, and which have the most significant effect on the amounts recognized in the consolidated financial statements.

(A) Determination of CGUs

A 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 are CGUs of the Company.

(B) Functional currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates as of the dates the transactions occur. 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 Group 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.

Significant estimates and assumptions

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 the Company's financial results or financial position in future periods.

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

The Company employs significant estimates to determine 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 useful lives, which require 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, if necessary, its depreciation methods and assumptions prospectively.

(B) 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 of impairment. 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 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.

(C) Provision for inventories

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 required to sell. 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.

3. Significant accounting judgments and estimates (*continued)*

(D) Sales allowances

A sales allowance is established to reflect allowances requested by customers relating to contractual discounts, negotiated discounts, customer audits, defective products and costs incurred by customers to sell the Company's products. Certain allowances are fixed and determinable at the time of sale and are recorded at the time of sale as a reduction to revenue. Other allowances can vary depending on future outcomes such as customer sales volume. The allowance is based on the Company's evaluation of the likelihood of the outcome of sales allowance claims. The Company considers various factors including customer terms, historical experience, any expected deviations from historical experience and existing or expected market conditions. The Company adjusts its' estimate at least quarterly, or when facts and circumstances used in the estimation process may change.

(E) 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 reliably estimated.

4. Revenue

The Company earns revenue from the following primary sources:

- Sales of toys and related products; and
- Royalties and licensing fees earned for the use of intellectual property, application revenues and the distribution of television programs ("Other revenue")

(US$ millions)	2019	2018
Revenue from sale of goods	1,463.7	1,509.6
Other revenue	117.9	121.9
Revenue	**1,581.6**	**1,631.5**

5. Other expenses (income)

(US$ millions)	2019	2018
Impairment of non-current assets	5.6	1.1
Other	1.0	(15.8)
Other expenses (income)	**6.6**	**(14.7)**

The Company was successful in a lawsuit as the plaintiff and agreed to a settlement of $15.5 million included in other expenses (income) in the consolidated statement of earnings and comprehensive income for the year ended December 31, 2018.

6. Finance costs

(US$ millions)	2019	2018
Bank fees	5.9	5.9
Accretion expense - lease liabilities	4.8	—
Accretion expense - other	1.7	2.3
Amortization of financing costs	0.9	0.9
Interest (income) expense	(1.6)	0.3
Finance costs	**11.7**	**9.4**

7. Expenses

Included within expenses are the following: selling, marketing, distribution and product development expenses, administrative expenses, including employee benefit expenses, property and operations and professional fees.

Selling, marketing, distribution and product development expenses

(US$ millions)	2019	2018
Selling	112.0	89.0
Marketing	155.0	154.2
Distribution	98.1	61.2
Product development	30.3	27.5
Selling, marketing, distribution and product development expenses	**395.4**	**331.9**

Administrative expenses

(US$ millions)	Note	2019	2018
Employee compensation and benefits		172.1	179.9
Property and operations		27.6	34.9
Professional services		22.8	24.4
Technology		12.2	11.2
Recruiting and training		6.9	7.3
Restructuring		2.7	—
Other		3.6	20.7
Administrative expenses		**247.9**	**278.4**

Employee compensation and benefits

(US$ millions)	2019	2018
Salaries, wages and bonuses	5.6	4.1
Employee benefits	0.9	0.9
Employee compensation and benefits expenses in cost of sales	**6.5**	**5.0**
Salaries, wages and bonuses	130.5	133.9
Share-based compensation	15.2	12.2
Restructuring	6.1	7.2
Employee benefits	20.3	26.5
Employee compensation and benefits in administrative expenses	**172.1**	**179.9**
Employee compensation and benefits	**178.6**	**184.9**

7. Expenses *(continued)*

Depreciation and amortization expense

(US$ millions)	2019	2018
Property, plant and equipment		
Moulds, dies and tools, included in cost of sales	20.9	20.5
Equipment	3.4	2.0
Land and leasehold improvements	5.8	3.5
Computer hardware	1.4	1.0
	31.5	**27.0**
Intangible assets		
Trademarks, licenses, IP & customer lists - definite	6.8	6.3
Content development, included in cost of sales	31.1	38.9
Computer software	2.2	2.0
	40.1	**47.2**
Right-of-use assets	**13.0**	**—**
Depreciation and amortization expense	**84.6**	**74.2**

8. Income tax

The income tax expense recognized in the statement of earnings and comprehensive income comprise of the following:

(US$ millions)	2019	2018
Current income tax expense	22.9	45.3
Deferred income tax (recovery) expense	(2.2)	8.2
Income tax expense	**20.7**	**53.5**

The income tax expense is calculated as follows:

(US$ millions)	2019	2018
Income before income tax expense	85.0	208.4
Income tax expense at Canadian statutory tax rate of 26.5% (2018 - 26.5%)	22.5	55.2
Effect of:		
Expenses not deductible in determining taxable income	0.5	0.9
Unused tax losses and tax attributes not recognized as deferred tax assets	1.5	0.8
Previously unrecognized and unused tax losses and other deferred tax assets differences now recognized	(0.4)	(0.7)
Different tax rates of subsidiaries operating in other jurisdictions	(4.2)	(4.1)
Other	0.8	1.4
Income tax expense	**20.7**	**53.5**

The tax rates used for the reconciliations above are the Canadian statutory tax rates of the parent payable by corporate entities in the Group, on taxable profits under tax laws in the respective jurisdictions in which the Company operates.

Current tax assets and liabilities

As at December 31, 2019, the Company had an income tax payable of $4.5 million (2018 - $6.5 million).

8. Income tax *(continued)*

Deferred income tax balances

The following is the analysis of deferred income tax assets and liabilities presented in the consolidated statements of financial position:

(US$ millions)	2019	2018
Deferred income tax assets	26.2	21.0
Deferred income tax liabilities	(20.4)	(15.5)
Net deferred income tax assets	**5.8**	**5.5**

The sources of deferred income tax balances are as follows:

(US$ millions)	2017	Recognized in net income	Foreign currency translation	2018
Property, plant and equipment	0.6	(2.2)	—	(1.6)
Intangible assets	(4.5)	(3.4)	—	(7.9)
Provisions and contingent liabilities	8.2	1.4	—	9.6
Allowance for doubtful accounts	0.4	(0.1)	(0.1)	0.2
	4.7	(4.3)	(0.1)	0.3
Benefits of tax loss carryforwards	7.4	(0.9)	(0.1)	6.4
Other temporary differences in basis	1.8	(3.0)	—	(1.2)
Net deferred tax assets	**13.9**	**(8.2)**	**(0.2)**	**5.5**

(US$ millions)	2018	Recognized in net income	Foreign currency translation	Recognized on business combination	2019
Property, plant and equipment	(1.6)	3.2	—	—	1.6
Intangible assets	(7.9)	(1.5)	—	(1.7)	(11.1)
Provisions and contingent liabilities	9.6	1.8	(0.1)	—	11.3
Allowance for doubtful accounts	0.2	—	—	—	0.2
	0.3	3.5	(0.1)	(1.7)	2.0
Benefits of tax loss carryforwards	6.4	0.4	(0.1)	—	6.7
Other temporary differences in basis	(1.2)	(1.7)	—	—	(2.9)
Net deferred tax assets	**5.5**	**2.2**	**(0.2)**	**(1.7)**	**5.8**

Unused tax losses

As at December 31, 2019, the Company had unused tax losses of $5.7 million (2018 - $2.9 million). Unused tax losses of $0.3 million will expire between 2020 and 2029, $2.0 million will expire beyond 2029 and $3.4 million may be carried forward indefinitely. There were no unrecognized deductible temporary differences for the year ended December 31, 2019 (2018 - nil).

Unrecognized taxable temporary differences associated with investments

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities were not recognized as at December 31, 2019, are $236.2 million (2018 - $203.1 million).

9. Trade and other receivables

(US$ millions)	Dec 31, 2019	Dec 31, 2018
Trade receivables		
Trade receivables	546.2	404.0
Provisions for sales allowances	(174.9)	(135.0)
Allowance for doubtful accounts	(0.6)	(2.2)
	370.7	**266.8**
Other receivables		
Investment tax credits receivable	24.2	39.1
Sales tax receivables	12.0	7.5
Royalty receivables	14.2	15.5
Other	6.6	6.7
	57.0	68.8
Net trade and other receivables	**427.7**	**335.6**

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

Trade receivables past due but not impaired

(US$ millions)	Dec 31, 2019	Dec 31, 2018
60-90 days	9.6	5.4
91-120 days	2.3	2.2
> 120 days	4.8	9.4
Total trade receivables past due but not impaired	**16.7**	**17.0**

Movement in the allowance for doubtful accounts

(US$ millions)	Dec 31, 2019	Dec 31, 2018
Beginning of year	2.2	2.8
Impairment losses recognized on receivables	9.9	20.4
Amounts written off during the year as uncollectible	(0.8)	(21.0)
Impairment losses reversed	(10.7)	(0.2)
Foreign currency translation	—	0.2
End of year	**0.6**	**2.2**

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

During the year ended December 31, 2019, the Company recognized a bad debt recovery of $0.9 million (2018 - net bad debt expense of $12.1 million) in administrative expenses (other), related to the legal motion filed by Toys R Us Inc. on March 15, 2018, to wind down and liquidate certain of Toys R Us Inc.'s global businesses.

10. Inventories

(US$ millions)	Dec 31, 2019	Dec 31, 2018
Raw materials	14.2	11.0
Finished goods	171.1	99.1
Inventories	**185.3**	**110.1**

The cost of inventories recognized as an expense in cost of sales during the year was $686.9 million (2018 - $711.7 million).

During 2019, $9.0 million of inventories were written down to net realizable value (2018 - $1.9 million). This charge is included within cost of sales in the consolidated statements of earnings and comprehensive income.

11. Property, plant and equipment

(US$ millions)	Moulds, dies and tools	Equipment	Land and leasehold improvements	Computer hardware	Total
Cost					
December 31, 2017	112.3	18.1	12.9	9.8	**153.1**
Additions	20.9	7.0	22.8	2.8	**53.5**
Asset retirements	(15.4)	—	—	—	**(15.4)**
Asset impairments	(1.1)	—	—	—	**(1.1)**
Foreign currency translation	(2.7)	(0.7)	(1.9)	(1.3)	**(6.6)**
December 31, 2018	**114.0**	**24.4**	**33.8**	**11.3**	**183.5**
Additions	24.7	7.6	5.6	3.0	**40.9**
Asset retirements	(8.7)	(2.3)	(1.9)	(0.2)	**(13.1)**
Foreign currency translation	(1.1)	—	1.6	0.1	**0.6**
December 31, 2019	**128.9**	**29.7**	**39.1**	**14.2**	**211.9**
Accumulated depreciation					
December 31, 2017	(90.8)	(13.2)	(7.8)	(8.2)	**(120.0)**
Depreciation	(20.5)	(2.0)	(3.5)	(1.0)	**(27.0)**
Asset retirements	15.4	—	—	—	**15.4**
Foreign currency translation	2.4	—	0.9	0.8	**4.1**
December 31, 2018	**(93.5)**	**(15.2)**	**(10.4)**	**(8.4)**	**(127.5)**
Depreciation	(20.9)	(3.4)	(5.8)	(1.4)	**(31.5)**
Asset retirements	8.7	2.3	1.9	0.2	**13.1**
Foreign currency translation	1.4	(0.1)	(0.5)	—	**0.8**
December 31, 2019	**(104.3)**	**(16.4)**	**(14.8)**	**(9.6)**	**(145.1)**
Net carrying amount					
December 31, 2018	**20.5**	**9.2**	**23.4**	**2.9**	**56.0**
December 31, 2019	**24.6**	**13.3**	**24.3**	**4.6**	**66.8**

For the year ended December 31, 2019, the Company recorded no impairment losses (2018 - $1.1 million in 6 CGUs). Impairment losses are recorded where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount was based on the asset's value in use.

12. Intangible assets

(US$ millions)	Note	Brands - indefinite	Trademarks, licenses, IP & customer lists - definite	Content development	Computer software	Total
Cost						
December 31, 2017		83.0	36.0	94.7	18.1	**231.8**
Additions		—	—	25.5	3.5	**29.0**
Assets acquired through business combinations		33.9	9.5	—	—	**43.4**
Foreign currency translation		(3.5)	0.4	(7.0)	(1.9)	**(12.0)**
December 31, 2018		**113.4**	**45.9**	**113.2**	**19.7**	**292.2**
Additions		—	—	48.1	5.2	**53.3**
Asset impairments		(5.6)	—	—	—	**(5.6)**
Assets acquired through business combinations	**23**	6.5	5.5	—	—	**12.0**
Foreign currency translation		1.4	0.3	3.2	1.0	**5.9**
December 31, 2019		**115.7**	**51.7**	**164.5**	**25.9**	**357.8**
Accumulated amortization						
December 31, 2017		—	(5.8)	(63.9)	(16.9)	**(86.6)**
Amortization		—	(6.3)	(38.9)	(2.0)	**(47.2)**
Foreign currency translation		—	0.2	5.5	1.7	**7.4**
December 31, 2018		**—**	**(11.9)**	**(97.3)**	**(17.2)**	**(126.4)**
Amortization		—	(6.8)	(31.1)	(2.2)	**(40.1)**
Foreign currency translation		—	0.2	(8.3)	(0.8)	**(8.9)**
December 31, 2019		**—**	**(18.5)**	**(136.7)**	**(20.2)**	**(175.4)**
Net carrying amount						
December 31, 2018		**113.4**	**34.0**	**15.9**	**2.5**	**165.8**
December 31, 2019		**115.7**	**33.2**	**27.8**	**5.7**	**182.4**

Cash flow projections during the forecast period are based on the same expected gross margins and raw materials price inflation throughout the forecast period. The cash flows beyond the five-year period have been extrapolated using a steady 1.0% (2018: 1.0%) per annum growth rate which is the projected long-term average growth rate. Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGUs.

The recoverable amount of the CGUs are determined based on a value in use calculation which uses cash flow projections based on financial forecasts approved by management covering a five-year period and a pre-tax discount rate of 8.9% per annum (2018: 10.8% per annum).

12. Intangible assets *(continued)*

The carrying amount of indefinite life intangible assets, comprised of brands, was allocated to CGUs as follows:

(US$ millions)	Dec 31, 2019	Dec 31, 2018
Gund	33.9	33.9
Games and Puzzles	31.6	24.3
Swimways	27.8	27.8
Toca Boca	13.0	13.0
Etch A Sketch	7.2	7.0
Meccano	2.2	2.2
Spy Gear	—	5.2
Total	**115.7**	**113.4**

Impairment losses

For the year ended December 31, 2019, the Company recorded impairment losses of $5.6 million (2018 - nil) in respect of the Spy Gear CGU (2018 - nil). Impairment losses are recorded where the carrying amount of the CGU exceeds its recoverable amount. The recoverable amount was based on the CGU's value in use.

13. Goodwill

(US$ millions)	Dec 31, 2019	Dec 31, 2018
Balance, beginning of year	124.2	105.5
Additions during the year	13.6	19.6
Foreign currency translation	1.0	(0.9)
Balance, end of year	**138.8**	**124.2**

The carrying amount of goodwill was allocated to these CGUs as follows:

(US$ millions)	Dec 31, 2019	Dec 31, 2018
Games and Puzzles	48.2	43.7
Swimways	42.1	42.1
Gund	20.3	19.6
Toca Boca	11.5	11.5
Orbeez	9.0	—
Etch A Sketch	4.1	3.8
Meccano	2.2	2.1
Tech Deck	1.2	1.2
Spin Master UK	0.2	0.2
Goodwill	**138.8**	**124.2**

The recoverable amount of the CGUs for goodwill have been determined on the same basis and assumptions as the indefinite lived intangible assets (see Note 12). There have been no impairment losses recognized with respect to goodwill during 2019 (2018 - nil).

14. Trade payables and accrued liabilities

(US$ millions)	Dec 31, 2019	Dec 31, 2018
Trade payables	215.8	160.6
Accrued liabilities	129.8	116.2
Trade payables and accrued liabilities	**345.6**	**276.8**

During the year ended December 31, 2019, the Company executed the restructuring of the Gund, Swimways, Cardinal and other business units. Included within accrued liabilities is a restructuring provision of $2.1 million for the year ended December 31, 2019 (December 31, 2018 - $3.4 million).

Accrued liabilities are comprised of payroll related liabilities, accrued royalties, commodity tax and other balances.

Contract liabilities are comprised of advances on contracts relating to licensing and television distribution, which arise as a result of consideration received in advance of the Company fulfilling its obligations. As at December 31, 2019, the Company had contract liabilities of $7.6 million (2018 - $7.0 million).

15. Loans and borrowings

Secured Debt

Bank Facilities

(i) On July 10, 2018, the Company reduced the limit of the Credit Facility (the "Production Facility") to $15.4 million ($20.0 million CAD) to better align with the Company's borrowing needs under the facility. The interest rate on amounts drawn under the Production Facility bear interest at a variable rate referenced to the lending institution's Canadian dollar prime rate.

On December 2, 2019, the Company reduced the limit on its Production Facility to $7.7 million ($10.0 million CAD) to better aligns with the Company's borrowing needs under the facility. As at December 31, 2019, the balance of the Production facility was nil.

(ii) The Company has a secured revolving credit facility (the "Facility") with the amount of $510.0 million, which matures in July 2023. Advances under the Facility may be used for general corporate purposes including refinancing existing indebtedness, funding working capital requirements, permitted acquisitions and permitted distributions. The Facility also has an option which permits the Company to increase the total capital available by an additional $200.0 million.

Available borrowing options under the Facility include:

- Prime Rate Loans;
- Base Rate Loans;
- Bankers' Acceptances from BA Lenders with a maturity of thirty, sixty, ninety or one hundred and eighty days, subject to availability;
- BA Equivalent Loans from the Non-BA Lenders with a maturity of thirty, sixty, ninety or one hundred and eighty days, subject to availability;
- LIBOR Loans with an interest period of one, two, three or six months, subject to availability;
- Swing Loans; or
- Letters of Credit

15. Loans and borrowings *(continued)*

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

- Total leverage ratio, defined as the ratio of (a) total debt at such time, to (b) EBITDA for the applicable twelve-month period, is calculated on a quarterly basis, of 3.00 to 1.00 or less, provided that, in the event the borrower used proceeds of a borrowing to complete a single permitted acquisition with aggregate consideration greater than $100.0 million during any two consecutive fiscal quarters falling within the twelve-month reporting period immediately following such permitted acquisition, the borrower must only maintain the total leverage ratio 3.50 to 1.00 or less; and
- Interest coverage ratio, calculated on a consolidated, rolling four quarter basis, at 3.00:1.00 or greater.

The Company was in compliance with all covenants as at December 31, 2019 and December 31, 2018.

As at December 31, 2019, the Company had utilized $0.7 million (December 31, 2018 - $0.4 million) of the Facility: nil (December 31, 2018 - nil) drawn in LIBOR Loans and $0.7 million (December 31, 2018 - $0.4 million) drawn in letters of credit.

Unsecured Debt

Bank Overdraft Facility

(iii) On December 19, 2018, the Company entered into an uncommitted Overdraft Facility Agreement (the "European Facility") for $16.8 million (€15.0 million). The European Facility will be used to fund working capital requirements in Europe. As at December 31, 2019, the outstanding balance was nil (December 31, 2018 - nil).

16. Provisions and contingent liabilities

(US$ millions)	Dec 31, 2019	Dec 31, 2018
Defectives (i)	13.8	9.8
Supplier liabilities (ii)	4.9	6.2
Contingent consideration, acquisitions (iii)	16.5	14.9
Provisions and contingent liabilities	**35.2**	**30.9**
Current	26.2	29.2
Non-current	9.0	1.7
Provisions and contingent liabilities	**35.2**	**30.9**

	Defectives (i)	Supplier liabilities (ii)	Contingent consideration, acquisitions (iii)	Total
December 31, 2017	**9.0**	**5.8**	**16.4**	**31.2**
Provisions recognized	15.1	1.4	0.7	**17.2**
Accretion recognized	—	—	2.3	**2.3**
Reductions arising from payments	(14.3)	(1.0)	(4.3)	**(19.6)**
Revaluation of provisions	—	—	(0.2)	**(0.2)**
December 31, 2018	**9.8**	**6.2**	**14.9**	**30.9**
Provisions recognized	15.8	0.5	2.1	**18.4**
Accretion recognized	—	—	1.7	**1.7**
Reductions arising from payments	(11.8)	(1.8)	(4.4)	**(18.0)**
Revaluation of provisions	—	—	2.2	**2.2**
December 31, 2019	**13.8**	**4.9**	**16.5**	**35.2**

16. Provisions and contingent liabilities *(continued)*

Provisions

(i) Defectives refer to when the end consumer returns faulty goods to the Company's customers. Customers without a fixed allowance for defectives are eligible for a credit for the cost of the product if returned as defective by the end consumer. The estimate of defectives is made based on the class and nature or the product and reduces the net sales figure on the statements of operations and comprehensive income.

(ii) Supplier liabilities represent the estimated compensation to be paid to suppliers for lower than expected volumes purchased, resulting in the supplier having excess raw material and finished goods inventory. While payments are not legally required, the Company will regularly compensate suppliers to maintain supplier relationships. The supplier obligation is based on the Company's estimate of the cost of the supplier's excess raw material and finished goods inventory. The provision for supplier obligations is recorded in Cost of Sales on the consolidated statements of operations and comprehensive income.

(iii) Business combinations as described in Note 23 include a royalty payable over the next five calendar years. The fair value of the total contingent consideration on December 31, 2019 was $16.5 million (2018 - $14.9 million) and is based on the achievement of certain financial performance criteria. The accretion of the royalty is recorded in other expense (income) in the consolidated statements of operations and comprehensive income.

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

17. Share capital

(a) Authorized as at December 31, 2019 and December 31, 2018

Unlimited number of multiple voting shares;

Unlimited number of subordinate voting shares; and

Unlimited number of preferred shares issuable in series.

	2019		2018	
	Shares (millions)	Amount (US$ millions)	Shares (millions)	Amount (US$ millions)
Multiple voting shares:				
Balance, beginning of year	70.7	360.8	73.5	375.1
Conversion to subordinate voting shares	(0.1)	(0.3)	—	—
Issuance under secondary offering	—	—	(2.8)	(14.3)
Balance, end of year	**70.6**	**360.5**	**70.7**	**360.8**
Subordinate voting shares:				
Balance, beginning of year	31.1	333.3	28.2	306.2
Issuance of common shares	0.4	20.4	0.1	12.8
Conversion from multiple voting shares	0.1	0.3	—	—
Issuance under secondary offering	—	—	2.8	14.3
Balance, end of year	**31.6**	**354.0**	**31.1**	**333.3**
Common shares issued and outstanding, end of year	**102.2**	**714.5**	**101.8**	**694.1**

17. Share capital *(continued)*

On August 15, 2018, the three founders of the Company converted an aggregate of 2.8 million multiple voting shares into an equal number of subordinate voting shares of the Company and closed an offering of such subordinate voting shares at a price of $41.98 per share. The Company did not receive any proceeds from the sale of subordinate voting shares associated with this offering.

(b) Share-based plans

Participation arrangements

The Company had equity participation arrangements ("Participation Arrangements") with nine senior employees and one former employee pursuant to which they were entitled to receive a cash payment and shares on the Initial Public Offering (the "Initial Offering") of the Company. The Participation Arrangements served to reward past service and encourage retention. The terms of the Participation Arrangements differ between participants with vested participants being entitled to some or all of their shares between six months and six years following the Initial Offering.

The Company satisfied the participants' entitlements by making a one-time cash payment to participants and by issuing an aggregate of 4,790,178 subordinate voting shares immediately prior to the closing of the Initial Offering. The compensation expense for the Participation Arrangements is calculated based on the fair value of each participation arrangement, as determined by the value of the Company at the closing of the Initial Offering, less the value of the cash settlement. The Company recognizes compensation expense over the vesting period of the Participation Arrangements, which is between six months and six years.

As at December 31, 2019, 1,068,258 (December 31, 2018 - 1,683,370) subordinate voting shares were outstanding relating to the Participation Arrangements with a weighted average grant date fair value of $14.9 million (December 31, 2018 - $23.5 million) based on the weighted average of the contractual life remaining of 12 months.

Share based compensation expense of $3.3 million (2018 - $5.6 million) relating to Participation Arrangements is recorded in administrative expenses in the consolidated statement of operations and comprehensive income for the year ended December 31, 2019.

Long-Term Incentive Plan ("LTIP")

The Company has an equity based compensation plan providing for the issuance of securities from treasury under which the grants will be made by the Company. Under the LTIP, the Board may at its discretion from time to time, grant share options, share units (in the form of RSUs and PSUs), Stock Appreciation Rights ("SARs"), restricted stock and any other equity based awards.

The Company settled vested LTIP grants during the year ended December 31, 2019 through the issuance of shares. The settlements resulted in a transfer of $11.8 million from contributed surplus to share capital.

RSUs and PSUs

Below is a summary of the activity related to RSUs and PSUs outstanding as at December 31, 2019 and December 31, 2018.

(number of units)	2019	2018
Outstanding, beginning of year	708,090	807,217
Granted	460,559	315,511
Exercised	(413,088)	(371,325)
Forfeited	(41,653)	(43,313)
Outstanding, end of year	**713,908**	**708,090**

Included in the above table are grants of 453,246 PSUs to certain key employees during the year ended December 31, 2019 (December 31, 2018 - 229,588).

17. Share capital *(continued)*

Share based compensation expense of $10.1 million (2018 - $11.3 million) relating to RSUs and PSUs is recorded in administrative expenses in the consolidated statement of earnings and comprehensive income for the year ended December 31, 2019 with corresponding entries recorded in contributed surplus. In the prior year, corresponding entries of $4.9 million and $6.4 million were recorded in contributed surplus and in accrued liabilities, respectively. Prior to August 1, 2018, the Company settled LTIP awards in cash, resulting in their recognition as liabilities, which were marked to market each period. Effective August 1, 2018, settlements of LTIP awards occur through the issuance of shares. As a result, the LTIP liabilities were reclassified to shareholders equity and are no longer marked to market.

Deferred Share Units ("DSUs")

Below is a summary of the activity related to DSUs outstanding as at December 31, 2019 and December 31, 2018.

(number of units)	2019	2018
Outstanding, beginning of year	60,393	67,644
Granted	17,918	11,098
Exercised	—	(18,349)
Outstanding, end of year	**78,311**	**60,393**

Share based compensation expense, (net of mark to market adjustment) was $0.6 million (2018 - $(0.3) million) relating to DSUs is recorded in administrative expenses in the consolidated statement of operations and comprehensive income for the year ended December 31, 2019. A corresponding amount was recorded in accrued liabilities.

Share Purchase Options ("Options")

The Company has one share option plan for key employees, which forms part of their LTIP. Under the plan, the exercise price of each option equals the market price of the Company's share on the date of grant and the Options have a maximum term of ten years. The Options vest ratably over four years.

The following is a summary of the activity of the outstanding Options:

	Number of Options	Weighted average exercise price (CAD)
Outstanding, beginning of year	685,741	$33.70
Granted	158,544	$37.96
Exercised	(7,689)	$22.94
Outstanding, end of year	**836,596**	**$34.60**

The weighted average fair value of the Options granted during the year ended December 31, 2019 and 2018 were estimated at the grant date based on the Black-Scholes option pricing model using the following assumptions:

	2019	2018
Share price (in Canadian dollars)	$37.96	$51.97
Exercise price (in Canadian dollars)	$37.96	$51.97
Risk-free interest rate	1.5%	2.1%
Expected option life (in years)	6.25	6.25
Expected volatility	31.9%	31.7%
Dividend yield	—	—
Black-Scholes fair value	35.0%	35.0%
Weighted average fair value per option granted at grant date (in Canadian dollars)	**$13.29**	**$18.19**

17. Share capital *(continued)*

Share based compensation expense of $1.8 million (2018 - $1.7 million) relating to Options is recorded in administrative expenses in the consolidated statement of earnings and comprehensive income for the year ended December 31, 2019.

The total expense recognized for employee services received during the period for equity-settled transactions is shown in the following table:

(US$ millions)	2019	2018
Equity-settled RSUs and PSUs	10.1	4.9
Equity-settled Participation Arrangements transactions	3.3	5.6
Share purchase options	1.8	1.7
Total share based compensation expense	**15.2**	**12.2**

Share based compensation expense of $15.2 million (2018 - $12.2 million) is recorded in administrative expenses in the consolidated statement of operations and comprehensive income for the year ended December 31, 2019. A corresponding amount was recorded in contributed surplus.

18. Earnings per share

	2019		2018	
	Weighted average number of shares	Per share amount ($)	Weighted average number of shares	Per share amount ($)
Basic	102.1	0.63	101.7	1.52
Diluted	102.9	0.62	102.3	1.51

The Participation Arrangements issued to employees upon the Initial Offering as subordinate voting shares resulted in the issuance of fewer multiple voting shares to the principal shareholders. As these share issuances are anti-dilutive, they are not included in the computation of diluted earnings per share. Effective August 1, 2018, all LTIP related awards are included in the computation of diluted earnings per share.

19. Changes in net working capital

(US$ millions)	2019	2018
(Increase) decrease in:		
Trade and other receivables	(57.1)	(121.2)
Inventories	(74.0)	15.0
Prepaid expenses	0.9	(12.6)
Advances on royalties	8.0	(7.4)
	(122.2)	**(126.2)**
Increase (decrease) in:		
Trade payables and accrued liabilities	35.7	91.1
Contract liabilities	0.6	(3.5)
Provisions and contingent liabilities	(3.1)	2.6
Other	9.1	16.9
	42.3	**107.1**
Total changes in net working capital	**(79.9)**	**(19.1)**

20. Related party transactions

During the year ended December 31, 2019, the Company engaged the services of a law firm whose managing partner is also a member of the Company's Board of Directors. For the year ended December 31, 2019, related party transactions included in the consolidated statements of the Company were $0.5 million (December 31, 2018 - $0.8 million).

Compensation of key management personnel

The compensation of directors and other key management personnel during the year was as follows:

(US$ millions)	2019	2018
Salaries, wages and bonuses	5.4	6.2
Share-based compensation	6.6	4.8
Employee benefits	0.2	0.3
Total compensation of key management personnel	**12.2**	**11.3**

21. Leases

Amounts recognized in the balance sheet

On January 1, 2019, the Company recognized right-of-use assets in the amount of $83.4 million and lease liabilities in the amount of $83.4 million. Leased buildings represented approximately 88.0% of the right-of-use assets with the remainder comprised of leases of distribution centres, information technology ("IT") equipment, and vehicles.

	Right-of-use Assets	Lease Liabilities
Transition, January 1, 2019	83.4	83.4
Additions	9.8	9.8
Disposals and modifications	(1.5)	(1.5)
Depreciation and amortization	(13.0)	—
Other	(0.4)	—
Accretion	—	4.8
Lease payments	—	(13.8)
December 31, 2019	**78.3**	**82.7**
Lease Liabilities, current		**15.1**
Lease Liabilities, non-current		**67.6**

The Company leases several assets including buildings, distribution centres, IT equipment, and vehicles. The average lease term is 11 years. The carrying value of right-of-use assets and depreciation by class of underlying assets at December 31, 2019 are as follows:

	Building	Equipment	Total
Net carrying amount	75.4	2.9	**78.3**
Depreciation expense	12.0	1.0	**13.0**

Extension and termination options are included in a number of property and equipment leases across the Company. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options are exercisable only by the Company and not by the respective lessor.

21. Leases *(continued)*

Amounts recognized in the statement of earnings and comprehensive income

	2019
Depreciation expense on right-of-use assets	13.0
Accretion expense on lease liabilities	4.8
Expense relating to short-term leases	0.6
Expense relating to leases of low value assets	1.1
Expense relating to variable lease payments not included in measurement of lease liability	3.4
Total	**22.9**

22. Commitments for expenditures

Licensing and similar agreements in effect at December 31, 2019 contain provisions for future minimum payments of $32.7 million (2018 - $23.4 million).

	Less than 1 year to greater than 5 years			
	<1 Year	1-5 Years	> 5 Years	Total
Lease liabilities - undiscounted	15.7	45.0	54.6	115.3
Guaranteed payments due to licensors	8.3	18.4	6.0	32.7
Total commitments	**24.0**	**63.4**	**60.6**	**148.0**

23. Business combinations

Acquisition of Orbeez

On December 4, 2019, the Company acquired the rights to the Orbeez brand, pursuant to an asset purchase agreement with The Maya Group. The acquisition secures the Company the global intellectual property and the ability to sell, market and license for further penetration into existing markets as well as expansion into new territories. The acquisition also allows Spin Master to incorporate Orbeez products into new and existing product lines.

Pursuant to the terms set forth in the agreement, the Company acquired control of the Orbeez intellectual property through the acquisition of certain assets of The Maya Group for total purchase consideration of $15.2 million.

Included in the total purchase consideration of $15.2 million is $2.1 million related to the estimated fair value of future royalties. The total purchase consideration has been allocated to the identifiable intangible assets based on their estimated fair values of $5.5 million (related to the brands and trademarks), and $9.0 million of goodwill. The assets are included in the Activities, Games & Puzzles and Plush product category, belonging to the North America segment effective December 4, 2019.

The pro forma and actual results of operations for this acquisition have not been presented and are immaterial. There were $0.1 million in transaction related costs included in administrative expenses in the consolidated statement of earnings and comprehensive income for the year ended December 31, 2019.

Assets acquired at the date of acquisition

	Fair Value as at Dec 4, 2019
Assets acquired	
Inventories	0.7
Intangible assets	5.5
Fair value of identifiable net assets acquired	**6.2**

23. Business combinations *(continued)*

Goodwill arising on acquisition

Consideration paid in cash	13.1
Present value of future royalties	2.1
Total purchase consideration	15.2
Fair value of identifiable net assets acquired	6.2
Goodwill arising from transaction	**9.0**

Goodwill arose on the acquisition of Orbeez as the cost of the consideration paid for the combination effectively included amounts for the benefit of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Acquisition of Hedbanz

On August 9, 2019, the Company acquired the intellectual property associated with the Hedbanz brand, pursuant to a share purchase agreement for total cash consideration of $9.4 million. The Company originally acquired the distribution rights to Hedbanz for the U.S and Mexico in 2011. The acquisition secures the Company the global IP and the ability to sell, market and license for further penetration into markets presently under license as well as expansion into new territories.

The total purchase consideration has been allocated to the identifiable intangible assets based on their estimated fair values of $6.5 million (related to the brands and trademarks), $1.7 million related to a deferred tax liability and $4.6 million of goodwill acquired. The assets are included in the Activities, Games & Puzzles and Plush product category, belonging to the North America segment effective August 9, 2019. The pro forma and actual results of operations for this acquisition have not been presented and are immaterial. There were $0.1 million in transaction related costs included in administrative expenses in the consolidated statement of earnings and comprehensive income for the year ended December 31, 2019.

Assets acquired and liabilities recognized at the date of acquisition

	Fair Value as at Aug 9, 2019
Assets acquired	
Intangible assets	6.5
	6.5
Liabilities assumed	
Deferred tax liability	1.7
	1.7
Fair value of identifiable net assets acquired	**4.8**

Goodwill arising on acquisition

Consideration paid in cash	9.4
Fair value of identifiable net assets acquired	4.8
Goodwill arising from transaction	**4.6**

Goodwill arose on the acquisition of Hedbanz as the consideration paid effectively included amounts for the benefit of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

23. Business combinations *(continued)*

Prior year acquisitions

Acquisition of Gund

On April 2, 2018, the Company acquired certain assets relating to the Gund line of business from Enesco LLC. 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. The acquisition will further diversify the Company's product line and open up opportunities for broader distribution, driving international growth.

Pursuant to the terms set forth in the agreement, the Company acquired control of the Gund brand through the acquisition of certain assets, for a total purchase consideration of $77.3 million. As part of the purchase consideration, the Company has agreed to pay royalties, calculated for each quarter of the three year royalty term, commencing June 30, 2018.

Included in the total purchase consideration of $77.3 million is $0.8 million related to the estimated fair value of the future royalty payments as at the acquisition date and $0.5 million of working capital adjustments. The total purchase consideration has been allocated to the identifiable intangible assets based on their estimated fair values of $42.4 million (related to the brand, customer relationships and non-competition agreement) and $19.6 million of goodwill. The assets are included in the Activities, Games and Puzzles category, belonging to the North America segment effective April 2, 2018.

There were $0.5 million in transaction related costs included in administrative expenses in the consolidated statement of earnings and comprehensive income for the year ended December 31, 2018.

Assets acquired and liabilities recognized at the date of acquisition

	Fair Value as at Apr 2, 2018
Assets acquired	
Accounts receivable	6.8
Inventories	10.5
Prepaid expenses	0.2
Intangible assets	42.4
	59.9
Liabilities assumed	
Accounts payable	1.7
Accrued royalties	0.5
	2.2
Fair value of identifiable net assets acquired	**57.7**

The trade and other receivables acquired (which principally comprised trade receivables) in this transaction had gross contractual amounts totaling $6.8 million, equal to the fair value as at April 2, 2018. The total balance is expected to be collected.

Goodwill arising on acquisition

Consideration paid in cash	76.0
Working capital adjustments	0.5
Present value of future royalty payments	0.8
Total purchase consideration	77.3
Fair value of identifiable net assets acquired	(57.7)
Working capital adjustment during measurement period	0.7
Goodwill arising from transaction	**20.3**

23. Business combinations *(continued)*

Goodwill arose on the acquisition of Gund as the consideration paid effectively included amounts for the benefit of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets. As at the date of acquisition, $19.6 million of goodwill is expected to be deductible for income tax purposes and is being amortized for tax purposes over 15 years.

Acquisition of Fuggler

On January 1, 2018, pursuant to the terms set forth in the agreement, the Company acquired control of Fuggler through the acquisition of certain assets, for total purchase consideration of $1.0 million. The total purchase consideration has been allocated to the identifiable intangible asset (trade name) based on its estimated fair value of $1.0 million. The asset is included in the Boys Action and Construction category, belonging to the North America segment effective January 1, 2018.

24. Financial instruments and risk management

Capital management

Management includes the following items in its definition of capital:

(US$ millions)	Dec 31, 2019	Dec 31, 2018
Share capital	714.5	694.1
Contributed surplus	35.8	40.9
Accumulated deficit	(28.1)	(92.4)
Capital	**722.2**	**642.6**

The Company makes adjustments to its capital based on the funds available to the Company, in order to support the operations of the business and to ensure that the subsidiaries in the Company will be able to continue as going concerns, while maximizing the return to stakeholders through the optimization of the debt and equity balances.

The Company manages its capital structure, and may make adjustments to it in light of changes in economic conditions. In order to maintain or modify the capital structure, the Company may arrange new debt with existing or new lenders, or obtain additional financing through other means.

Management reviews its capital management strategy for reasonability on an ongoing basis and believes that this approach is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2019.

The Company is subject to capital requirements under the credit facility agreement, as described in Note 15. As at December 31, 2019, the Company was in compliance with all financial covenants.

Financial risk management objectives

Management's objective is to protect the Company and its subsidiaries on a consolidated basis against material economic exposures and the variability of results from various financial risks that include foreign currency risk, interest rate risk, credit risk and liquidity risk.

Market risk

Foreign currency risk

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

24. Financial instruments and risk management *(continued)*

As at December 31, 2019, the Company is committed under outstanding foreign exchange contracts to purchase US $, representing total purchase commitments of approximately $15.8 million (2018 - $39.3 million).

Foreign currency risk - sensitivity analysis

The Company is primarily exposed to the Canadian dollar, the Peso, the British Pound and the Euro. A sensitivity rate of 5.0% is used when reporting foreign currency risk internally to key management personnel, and represents management's assessment of the reasonably possible change in foreign exchange rates to which the Company is exposed.

For the year ended December 31, 2019, a 5.0% strengthening of the above currencies against the US$ would have resulted in a decrease to net assets of $4.2 million (2018 - an increase to net assets of $0.8 million).

The sensitivity analysis includes only outstanding foreign currency denominated monetary assets and liabilities, and adjusts their translation as at the end of the reporting period for a 5.0% change in foreign currency rates.

Interest rate risk - management

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 facilities bears interest at a variable rate.

Interest rate risk - sensitivity analysis

The Company is exposed to interest rate risk on financial instruments. A sensitivity rate of 50 basis points is used when reporting interest rate risk internally to key management personnel, and represents management's assessment of the reasonably possible change in interest rates to which the Company is exposed.

For the year ended December 31, 2019, with all other variables held constant, a 50 basis point increase in interest rates would have resulted in a decrease to interest income of $0.3 million for the year (2018 - no impact to net income).

Credit risk

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.

As at December 31, 2019, approximately 46.5% (2018 - 44.9%) of the Company's trade receivables are from three major retail customers which represent approximately 48.0% of gross product sales for the year ended December 31, 2019 (2018 - 47.9%). The Company's credit insurance provides coverage for all of these customers.

As at December 31, 2019, approximately 42.5% (2018 - 34.0%) of the Company's other receivables are from the provincial and federal governments of Canada.

The Company mitigates credit risk on its cash balance by ensuring deposits are with financial institutions with high credit-ratings assigned by international credit-rating agencies and ensuring that the counterparties are banks and government agencies.

Liquidity risk

The following details the Company's remaining contractual maturities for its financial liabilities with contractual repayment periods. The tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay, including both interest and principal.

To the extent that interest rates are floating, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Company may be required to pay.

24. Financial instruments and risk management *(continued)*

The Company's contractual maturities are as follows:

As at December 31, 2019	Less than 1 year	1-5 years	5 years and thereafter	Total
Trade payables and accrued liabilities	345.6	—	—	345.6
Provisions and contingent liabilities	26.2	9.0	—	35.2
	371.8	**9.0**	**—**	**380.8**

As at December 31, 2018	Less than 1 year	1-5 years	5 years and thereafter	Total
Trade payables and accrued liabilities	276.8	—	—	276.8
Provisions and contingent liabilities	29.2	1.7	—	30.9
	306.0	**1.7**	**—**	**307.7**

Financing facilities

(US$ millions)	Dec 31, 2019	Dec 31, 2018
Bank loan facilities		
Amount unused	534.5	541.8
Bank loan facilities	**534.5**	**541.8**

Fair value measurements

With the exception of foreign exchange forward contracts, the Company does not currently record any financial assets or liabilities at fair value in the financial statements and their carrying amounts approximate their fair values.

The fair value of foreign exchange forward contracts generated an unrealized loss of $0.5 million as at December 31, 2019 and is recorded in other liabilities (2018 - liability of $1.0 million). These fair values are categorized within Level 2 of the fair value hierarchy. The fair value of foreign exchange contracts is estimated based on forward exchange rates observable at the end of the reporting period and contract forward rates.

25. Segment information

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

(i) Activities, games & puzzles and plush
(ii) Remote control and interactive characters
(iii) Boys action and construction
(iv) Pre-school and girls
(v) Outdoor

Information reported to the Chief Operating Decision Maker ("CODM") for the purposes of resource allocation and assessment of segment performance focuses on geographical areas rather than product category. The executives of the Company have chosen to organize the Company around the 3 operating segments as follows: (i) North America, (ii) Europe, and (iii) Rest of world. Factors considered in determining the operating segments include the nature of the Company's business activities, the management structure directly accountable to the CODM, availability of discrete financial information and strategic priorities within the organizational structure.

25. Segment information *(continued)*

Segment revenue and results

The Company's revenue and results from operations by reportable segment are as follows:

(US$ millions)	2019	2018
Revenue by segment		
North America	1,026.3	1,085.2
Europe	430.4	376.3
Rest of world	234.5	246.5
Gross product sales	**1,691.2**	**1,708.0**
Sales allowances	227.5	198.4
Total net sales	**1,463.7**	**1,509.6**
Other revenue	117.9	121.9
Total revenue	**1,581.6**	**1,631.5**
Segment income before tax expense		
North America	51.9	175.6
Europe	23.9	26.9
Rest of world	18.7	11.8
Total segment income before tax expense	**94.5**	**214.3**
Corporate and other	(9.5)	(5.9)
Income before income tax expense	**85.0**	**208.4**

Revenues for North America include revenues attributable to Canada of $158.3 million (2018 - $180.6 million) for the year ended December 31, 2019.

Revenue reported by segment above represents revenue generated from external customers. There were no inter-segment sales in the current year (2018 - nil). The Company does not include sales adjustments such as trade discounts and other allowances in reporting revenue by segment (referred to as "gross product sales").

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 2. Segment income represents income before income tax expense earned by each segment prior to any allocation of other expenses, foreign exchange loss (gain) and finance costs. This measure is reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Segment assets

(US$ millions)	Dec 31, 2019	Dec 31, 2018
North America	872.7	720.9
Europe	211.2	143.2
Rest of world	120.7	77.1
Total segment assets	**1,204.6**	**941.2**
Corporate and other	51.8	58.0
Total assets	**1,256.4**	**999.2**

25. Segment information *(continued)*

Non-current assets by reportable segment are detailed as follows:

(US$ millions)	Dec 31, 2019	Dec 31, 2018
North America	395.1	295.5
Europe	26.9	13.3
Rest of world	13.4	7.5
Total segment non-current assets	**435.4**	**316.3**
Corporate and other	60.3	60.8
Total non-current assets	**495.7**	**377.1**

Non-current assets for North America include assets attributable to Canada of $140.2 million as at December 31, 2019 (December 31, 2018 - $91.0 million).

Segment liabilities

(US$ millions)	Dec 31, 2019	Dec 31, 2018
North America	387.6	271.4
Europe	68.9	48.1
Rest of world	56.9	40.7
Total segment liabilities	**513.4**	**360.2**
Corporate and other	(17.4)	(23.5)
Total liabilities	**496.0**	**336.7**

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

- all assets are allocated to reportable segments other than deferred tax assets, other long-term assets and computer software. Goodwill is allocated to cash generating units. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and
- all liabilities are allocated to reportable segments other than royalties payable (included within trade payables and other liabilities) and deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

Capital expenditures by reportable segment

(US$ millions)	2019	2018
North America	81.1	73.4
Europe	7.5	5.4
Rest of world	5.6	3.7
Total capital expenditures	**94.2**	**82.5**

Depreciation and amortization by reportable segment

(US$ millions)	2019	2018
North America	66.9	62.5
Europe	9.4	6.3
Rest of world	4.6	3.2
Total segment depreciation and amortization	**80.9**	**72.0**
Corporate and other	3.7	2.2
Total depreciation and amortization	**84.6**	**74.2**

25. Segment information *(continued)*

In addition to the depreciation and amortization reported above, $5.6 million impairment losses were recognized in respect of property, plant and equipment and intangible assets for year ended December 31, 2019 (2018 - $0).

Revenue from major product categories

The Company's worldwide revenues based on its major product categories are as follows:

(US$ millions)	2019	2018
Activities, games & puzzles and plush	457.7	455.5
Remote control and interactive characters	299.3	505.4
Boys action and construction	331.4	133.1
Pre-school and girls	516.2	517.5
Outdoor	86.6	96.5
Gross product sales	**1,691.2**	**1,708.0**
Sales allowances	227.5	198.4
Total net sales	**1,463.7**	**1,509.6**
Other revenue	117.9	121.9
Total revenue	**1,581.6**	**1,631.5**

Major customers

Sales to the Company's three largest customer accounted for 48.0% (2018 - 47.9%) of consolidated gross product sales for the year ended December 31, 2019. The top three customers contributed 10% or more to gross product sales. No other single customer contributed 10% or more to gross product sales of the Company for the year ended December 31, 2019.

(US$ millions)	2019	2018
Gross product sales		
Customer 1	403.1	409.5
Customer 2	240.8	246.4
Customer 3	168.5	161.4
Total	**812.4**	**817.3**

26. Prior year comparatives

Certain prior year comparatives have been reclassified to conform with current year presentation.

CORPORATE DIRECTORY

Board of Directors

Charles Winograd	Lead Director
Ronnen Harary	Chairman and Co-Chief Executive Officer
Anton Rabie	Director and Co-Chief Executive Officer
Ben Varadi	Director, Executive Vice President and Chief Creative Officer
Jeffrey I. Cohen	Non-Executive Director
Dina Howell	Non-Executive Director
Todd Tappin	Non-Executive Director

Senior Management

Ronnen Harary	Co-Founder and Co-Chief Executive Officer
Anton Rabie	Co-Founder and Co-Chief Executive Officer
Ben Varadi	Executive Vice President and Chief Creative Officer
Mark Segal	Executive Vice President and Chief Financial Officer
Chris Beardall	Executive Vice President of Global Sales
Tara Deakin	Executive Vice President and Chief People Officer
Christopher Harrs	Executive Vice President and General Counsel, Corporate Secretary
Laura Henderson	Executive Vice-President, Marketing and Ecommerce
Jennifer Dodge	Executive Vice President, Entertainment
Adam Beder	Executive Vice President, Strategic Partnership and Franchise Development
Ben Dermer	Senior Vice President, Creative Development

Head Office

225 King Street West
Toronto, ON M5V 3M2

Auditor

Deloitte LLP
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Toronto, ON M5H 0A9

Legal Counsel

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1500 – 151 Yonge Street
Toronto, ON M5C 2W7

Investor Contact

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Toronto Stock Exchange Listing

Trading Symbol: TOY
Securities listed: Subordinate Voting Shares

Registrar & Transfer Agent

Computershare Investor Services Inc.
100 University Avenue, 8th Floor
Toronto, ON M5J 2Y1

Annual Meeting of Shareholders

May 7, 2020

FORWARD-LOOKING STATEMENTS

Certain statements, other than statements of historical fact, contained in this document constitute "forward-looking information" within the meaning of certain securities laws, including the Securities Act (Ontario). 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 may include, without limitation, statements with respect to: the toy industry; the Company's growth strategies and objectives, drivers for such growth and the successful execution of its strategies for growth; innovation; development of evergreen global entertainment and digital toy properties; international sales expansion; acquisitions; marketing and corporate social responsibility initiatives; partnering with others; new products and entertainment properties to be introduced in 2020 and beyond; the Company's direct to consumer initiatives and the potential benefits; the Company's operating momentum, financial position, cash flows and financial performance; and shareholder returns. Forward-looking statements are necessarily based upon management's perceptions of historical trends, current conditions and expected future developments, as well as a number of specific factors and assumptions that, while considered reasonable by management as of the date on which the statements are made in this document, are inherently subject to significant business, economic and competitive uncertainties and contingencies which could result in the forward-looking statements ultimately being incorrect. In addition to any factors and assumptions set forth in this document, the material factors and assumptions used to develop the forward-looking information include, but are not limited to: the 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 ability of the Company to maintain its distribution capabilities; the Company's ability to continue to build and maintain strong, collaborative relationships; the Company's status as a preferred collaborator; the culture and business structure of the Company will support its growth; the ability to expand the Company's portfolio of owned branded intellectual property and successfully license it to third parties; the expanded use of advanced technology and robotics in the Company's products; the increased access of entertainment content on mobile platforms; fragmentation of the market creates acquisition opportunities; maintenance of the Company's relationships with its employees; and the continued involvement of the Company's founders 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 document. Such risks and uncertainties include, without limitation, the factors discussed under "Risk Factors" in the Company's most recent Annual Information Form and under "Risks Relating to Spin Master's Business" in the Company's most recent annual Management Discussion & Analysis, filed with the Canadian securities regulators and available at 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. All forward-looking statements in this document are qualified by these cautionary statements.

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