

Spin Master Corp.

Condensed consolidated interim financial statements (unaudited)

For the three and nine months ended September 30, 2021 and September 30, 2020

Spin Master Corp.

Condensed consolidated interim statements of financial position

(Unaudited, in US\$ millions)	Notes	Sep 30, 2021	Dec 31, 2020
Assets			
Current assets			
Cash		360.5	320.6
Trade receivables	9	417.3	265.2
Other receivables	9	82.0	73.4
Inventories	10	183.1	102.0
Advances on royalties		14.0	17.2
Prepaid expenses		12.3	7.2
Other assets	11	—	3.0
Assets held for sale	12	6.9	—
		1,076.1	788.6
Non-current assets			
Intangible assets	14	220.3	192.0
Goodwill	15	173.7	138.0
Right-of-use assets	23	64.7	67.0
Property, plant and equipment	13	45.7	53.4
Deferred income tax assets		96.2	98.7
Advances on royalties		0.5	0.7
Other assets	11	8.2	3.7
		609.3	553.5
Total assets		1,685.4	1,342.1
Liabilities			
Current liabilities			
Trade payables and accrued liabilities	16	465.7	314.4
Contract liabilities	17	7.7	25.3
Provisions and contingent liabilities	19	27.3	29.2
Income tax payable		41.2	21.1
Lease liabilities	23	15.1	15.4
		557.0	405.4
Non-current liabilities			
Provisions and contingent liabilities	19	9.3	5.2
Deferred income tax liabilities		39.6	29.6
Lease liabilities	23	57.2	59.0
		106.1	93.8
Total liabilities		663.1	499.2
Shareholders' equity			
Share capital	20	735.3	724.8
Retained earnings		189.5	17.4
Contributed surplus		37.4	36.6
Accumulated other comprehensive income		60.1	64.1
Total shareholders' equity		1,022.3	842.9
Total liabilities and shareholders' equity		1,685.4	1,342.1

Approved by the Board of Directors on November 3, 2021.

The accompanying notes on pages 5 to 28 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of earnings and comprehensive income

(Unaudited, in US\$ millions, except earnings per share)	Notes	Three Months Ended Sep 30		Nine Months Ended Sep 30	
		2021	2020	2021	2020
Revenue	3	714.5	571.6	1,421.9	1,080.0
Cost of sales		348.5	293.7	688.6	593.1
Gross profit		366.0	277.9	733.3	486.9
Expenses					
Selling, marketing, distribution and product development	6	107.1	92.2	248.6	232.7
Administrative expenses	6	80.0	67.0	226.5	187.9
Depreciation and amortization expenses	6	8.0	9.5	25.6	27.7
Other expenses (income)	4	2.2	—	1.7	(1.0)
Net foreign exchange (gain) loss	7	(10.8)	5.1	(2.2)	17.1
Finance costs	5	2.3	2.6	7.1	8.7
Income before income tax expense (recovery)		177.2	101.5	226.0	13.8
Income tax expense (recovery)	8	41.8	14.7	53.9	(31.4)
Net income		135.4	86.8	172.1	45.2
Earnings per share					
Basic	21	1.32	0.85	1.68	0.44
Diluted	21	1.29	0.83	1.64	0.43

(Unaudited, in US\$ millions)	Notes	Three Months Ended Sep 30		Nine Months Ended Sep 30	
		2021	2020	2021	2020
Net income		135.4	86.8	172.1	45.2
Items that may be subsequently reclassified to net income					
Foreign currency translation (loss) gain on foreign operations		(18.4)	9.7	(4.0)	(2.1)
Other comprehensive income (loss)		(18.4)	9.7	(4.0)	(2.1)
Total comprehensive income		117.0	96.5	168.1	43.1

The accompanying notes on pages 5 to 28 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of changes in shareholders' equity

(Unaudited, in US\$ millions)	Note	Share capital	(Accumulated deficit) retained earnings	Contributed surplus	Accumulated other comprehensive income	Total
Balance at January 1, 2020		714.5	(28.1)	35.8	38.2	760.4
Net income		—	45.2	—	—	45.2
Other comprehensive loss		—	—	—	(2.1)	(2.1)
Cancellation of common shares	20	(1.1)	—	—	—	(1.1)
Share-based compensation	20	—	—	9.3	—	9.3
Shares released under equity participation arrangements	20	8.2	—	(8.2)	—	—
Shares issued upon settlement of long-term incentive plan	20	2.7	—	(2.7)	—	—
Balance at September 30, 2020		724.3	17.1	34.2	36.1	811.7
Balance at January 1, 2021		724.8	17.4	36.6	64.1	842.9
Net income		—	172.1	—	—	172.1
Other comprehensive loss		—	—	—	(4.0)	(4.0)
Share-based compensation	20	—	—	11.3	—	11.3
Shares released from equity participation	20	2.2	—	(2.2)	—	—
Shares issued upon settlement of long-term incentive plan	20	8.3	—	(8.3)	—	—
Balance at September 30, 2021		735.3	189.5	37.4	60.1	1,022.3

The accompanying notes on pages 5 to 28 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of cash flows

For the nine months ended September 30
(Unaudited, in US\$ millions)

	Notes	2021	2020
Operating activities			
Net income		172.1	45.2
Adjustments to reconcile net income to cash provided by operating activities			
Income tax expense (recovery)	8	53.9	(31.4)
Interest (income) expense	5	(0.7)	2.0
Depreciation and amortization expense	6	88.9	75.4
Loss on disposal of property, plant and equipment	13	0.9	—
Accretion expense	5	4.4	3.6
Amortization of financing costs	5	0.3	0.3
Gain on investment in limited partnership, net of distribution income	11	(1.8)	—
Impairment of intangible assets	14	1.4	—
Unrealized foreign exchange loss	7	0.3	35.3
Share-based compensation expense	20	11.3	9.3
Net change in non-cash working capital	22	(117.4)	49.5
Net change in provisions and contingent liabilities		6.2	(0.2)
Income taxes paid		(33.6)	(21.3)
Income taxes received		2.1	6.9
Interest received (paid)		0.7	(2.0)
Cash provided by operating activities		189.0	172.6
Investing activities			
Investment in property, plant and equipment	13	(23.2)	(19.2)
Investment in intangible assets	14	(37.5)	(45.0)
Business acquisitions, net of cash acquired	25	(70.2)	1.0
Investment distribution income	4	0.6	—
Investment in limited partnership	11	(0.9)	—
Investment in minority interests	11	(2.4)	—
Investment in trademark license agreement	14	—	(2.4)
Cash used in investing activities		(133.6)	(65.6)
Financing activities			
Proceeds from loans and borrowings	18	—	350.0
Repayment of loans and borrowings	18	—	(350.0)
Payment of lease liabilities	23	(13.5)	(11.2)
Cancellation of common shares	20	—	(1.1)
Payment of financing costs	11	(1.3)	—
Cash used in financing activities		(14.8)	(12.3)
Effect of foreign currency exchange rate changes on cash		(0.7)	(2.7)
Net increase in cash during the period		39.9	92.0
Cash, beginning of period		320.6	115.3
Cash, end of period		360.5	207.3

The accompanying notes on pages 5 to 28 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2021 and September 30, 2020

1. Description of business

Spin Master Corp., was incorporated on June 9, 2004, under the laws of the Province of Ontario, Canada and is a global children's entertainment company creating exceptional play experiences through a diverse portfolio of innovative toys, entertainment franchises and digital games. Spin Master Corp. creates, designs, manufactures, licenses and markets a diversified portfolio of toys, games and products, creates and produces multiplatform content, stories and characters in both original shows along with short-form series and creates digital games and apps. Its registered office is located at 225 King Street West, Suite 200, Toronto, Canada, M5V 3M2. Spin Master Corp. and its subsidiaries are together referred to, in these consolidated financial statements, as the "Company" or "Spin Master".

The Company has three reportable operating segments: North America, Europe and Rest of World (see Note 27).

2. Summary of significant accounting policies

(A) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated interim financial statements as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2020.

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.

These condensed consolidated interim financial statements and accompanying notes were approved and authorized for issuance by the Board of Directors of the Company on November 3, 2021.

(B) Basis of preparation

These condensed consolidated interim financial statements include the accounts of Spin Master Corp. and its subsidiaries and should be read in conjunction with the Company's audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2020.

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic. The crisis related to the COVID-19 pandemic is unprecedented and has had an impact on the Company's employees, customers and suppliers in 2020 and 2021.

The Company closely monitors the changing global environment to enable immediate actions to be taken to ensure customer order fulfillment is achieved across the various markets.

Consumer demand for toys is strong in most major markets, however due to continued government-imposed restrictions and the closure of certain retail locations, the pandemic has resulted in reductions in brick and mortar retail consumer traffic in various countries globally, including some of Spin Master's largest markets. As a result, brick and mortar retail consumer traffic continues to be impacted in markets with government-imposed restrictions and consumer purchasing behaviour. Online and e-commerce channels are active in most countries.

As at September 30, 2021, the Company had unutilized liquidity of \$878.0 million, comprised of \$360.5 million in cash and \$517.5 million under its credit facilities. The Company believes it has sufficient liquidity to meet its operational requirements.

The Company has assessed significant accounting judgments and estimates in preparing the Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2021. The significant accounting policies, judgments and estimates as disclosed in Note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2020 have been applied consistently in the preparation of these condensed consolidated interim financial statements.

Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2021 and September 30, 2020

2. Summary of significant accounting policies (continued)

(C) Functional and presentation currency

These condensed consolidated interim financial statements are presented in US\$, which is the Company's presentation currency; however, the functional currency of the Company is the Canadian dollar. The functional currency of the operating subsidiaries is typically the economic currency in the associated jurisdiction. At September 30, 2021 and 2020, the functional currencies of the Company's subsidiaries included the US\$, Canadian dollar, the Euro, the Great Britain pound sterling, the Hong Kong dollar, the Mexican peso, the Chinese yuan, the Vietnamese dong, the Japanese yen, the Swedish krona, the Australian dollar, the Indian rupee, the Polish zloty, and the Russian ruble.

3. Revenue

The Company earns revenue from the following primary sources:

- a. Revenue from sale of goods;
- b. Entertainment and Licensing revenue; and
- c. Digital games revenue.

(US\$ millions)	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2021	2020	2021	2020
Revenue from sale of goods	607.8	523.3	1,189.8	981.3
Entertainment and Licensing revenue	52.9	20.5	107.3	53.8
Digital games revenue	53.8	27.8	124.8	44.9
Revenue	714.5	571.6	1,421.9	1,080.0

Historically, revenue from sale of goods is more concentrated in the third and fourth quarters of a fiscal year than in the first and second quarters.

4. Other expenses (income)

(US\$ millions)	Notes	Three Months Ended Sep 30		Nine Months Ended Sep 30	
		2021	2020	2021	2020
Impairment of intangible assets	14	—	—	1.4	—
Investment distribution income	11	(0.2)	—	(0.6)	—
Net unrealized gain on investment	11	—	—	(1.2)	—
Acquisition related contingent consideration	19	—	—	(0.7)	—
Acquisition related deferred incentive compensation	25	2.7	—	4.2	—
Other		(0.3)	—	(1.4)	(1.0)
Other expenses (income)		2.2	—	1.7	(1.0)

5. Finance costs

(US\$ millions)	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2021	2020	2021	2020
Bank fees	0.9	1.1	3.1	2.8
Accretion expense - lease liabilities	1.1	1.2	3.3	3.5
Accretion (income) expense - other	0.5	(0.4)	1.1	0.1
Amortization of financing costs	0.1	0.1	0.3	0.3
Interest (income) expense	(0.3)	0.6	(0.7)	2.0
Finance costs	2.3	2.6	7.1	8.7

Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2021 and September 30, 2020

6. Expenses

Expenses include: selling, marketing, distribution, product development expenses, administrative expenses and depreciation and amortization expenses.

Selling, marketing, distribution and product development expenses

(US\$ millions)	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2021	2020	2021	2020
Selling	47.4	39.8	92.5	77.5
Marketing	34.2	25.0	87.7	63.1
Distribution	17.9	20.7	48.4	68.0
Product development	7.6	6.7	20.0	24.1
Selling, marketing, distribution and product development expenses	107.1	92.2	248.6	232.7

Administrative expenses

(US\$ millions)	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2021	2020	2021	2020
Employee compensation and benefits	61.1	50.1	164.7	132.3
Professional services	6.5	6.0	23.4	18.3
Property and operations	4.8	3.8	13.0	13.6
Technology	3.3	3.8	9.9	10.1
Recruiting and training	1.8	0.9	5.3	4.7
State and local taxes	0.9	0.9	2.4	2.1
Other	1.6	1.5	7.8	6.8
Administrative expenses	80.0	67.0	226.5	187.9

Employee compensation and benefits

(US\$ millions)	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2021	2020	2021	2020
Salaries, wages and bonuses	1.4	1.6	4.1	4.3
Employee benefits	0.2	0.3	0.8	0.8
Employee compensation and benefits expenses in cost of sales	1.6	1.9	4.9	5.1
Salaries, wages and bonuses	49.9	40.3	133.0	102.3
Share-based compensation	4.1	2.9	11.3	9.3
Restructuring expense	0.4	1.4	1.1	4.8
Employee benefits	6.7	5.5	19.3	15.9
Employee compensation and benefits in administrative expenses	61.1	50.1	164.7	132.3
Employee compensation and benefits	62.7	52.0	169.6	137.4

Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2021 and September 30, 2020

6. Expenses (continued)

Depreciation and amortization expenses

(US\$ millions)	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2021	2020	2021	2020
Property, plant and equipment				
Moulds, dies and tools, included in cost of sales	5.8	6.1	17.3	17.8
Equipment, included in cost of sales	0.1	0.1	0.3	0.2
Equipment	0.6	0.7	2.3	2.8
Land and leasehold improvements	1.5	1.6	4.7	4.7
Computer hardware	0.2	0.3	1.0	1.1
	8.2	8.8	25.6	26.6
Intangible assets				
Content development, included in cost of sales	26.7	10.6	41.5	28.5
Trademarks, licenses, IP & customer lists - definite	1.2	1.7	4.6	5.4
App development, included in cost of sales	1.1	0.6	4.2	1.5
Computer software	1.0	1.3	2.8	3.5
	30.0	14.2	53.1	38.9
Right-of-use assets	3.5	3.4	10.2	9.9
Depreciation and amortization expenses	41.7	26.4	88.9	75.4

(US\$ millions)	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2021	2020	2021	2020
Included in cost of sales	33.7	16.9	63.3	47.7
Included in expenses	8.0	9.5	25.6	27.7
Depreciation and amortization expenses	41.7	26.4	88.9	75.4

7. Foreign exchange

The Company incurred a foreign exchange gain (net of loss) for the three and nine months ended September 30, 2021 of \$10.8 million (2020 - net foreign exchange loss of \$5.1 million) and \$2.2 million (2020 - net foreign exchange loss of \$17.1 million), respectively.

(US\$ millions)	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2021	2020	2021	2020
Unrealized foreign exchange (gain) loss	(9.9)	31.4	0.3	35.3
Realized foreign exchange gain	(0.9)	(26.3)	(2.5)	(18.2)
Net foreign exchange (gain) loss	(10.8)	5.1	(2.2)	17.1

Unrealized foreign exchange gains and losses are generated by the translation of monetary assets and liabilities denominated in a currency other than the functional currency and also includes gains and losses related to the Company's hedging programs. Realized foreign exchange gains and losses are recognized when monetary assets and liabilities denominated in a currency other than the functional currency of the applicable entity are settled. The Company uses derivative financial instruments such as foreign exchange forward contracts to manage foreign currency risk (see Note 26).

Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2021 and September 30, 2020

8. Income tax

Income tax recognized in net income

(US\$ millions)	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2021	2020	2021	2020
Current income tax expense	39.6	4.0	51.2	27.8
Deferred income tax expense (recovery)	2.2	10.7	2.7	(59.2)
Income tax expense (recovery)	41.8	14.7	53.9	(31.4)

The income tax expense (recovery) for the nine months ended September 30, 2021 and September 30, 2020 is calculated as follows:

(US\$ millions)	2021		2020	
Income before income tax expense (recovery)	226.0		13.8	
Income tax expense at Canadian statutory tax rate of 26.5% (2020 - 26.5%)	59.9	26.5 %	3.7	26.5 %
Effect of:				
Different tax rates of subsidiaries operating in other jurisdictions	(5.7)	(2.5)%	(1.1)	(7.9)%
Income not taxable in determining taxable income	(1.4)	(0.6)%	(0.8)	(5.7)%
Recognition of previously unrecognized tax losses and other deferred tax assets	—	— %	(0.1)	(0.7)%
Internal transfer of intangible property	—	— %	(33.3)	(241.3)%
Other	1.1	0.5 %	0.2	1.6 %
Income tax expense (recovery)	53.9	23.9 %	(31.4)	(227.5)%

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.

9. Trade and other receivables

Trade receivables

(US\$ millions)	Sep 30, 2021	Dec 31, 2020
Trade receivables	558.9	426.5
Provisions for sales allowances	(140.7)	(158.1)
Allowance for doubtful accounts	(0.9)	(3.2)
Trade receivables	417.3	265.2

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

Other receivables

(US\$ millions)	Sep 30, 2021	Dec 31, 2020
Investment tax credits receivable	27.5	31.8
Entertainment production receivables	14.4	10.6
Royalty receivables	24.3	11.5
Sales tax receivables	7.1	7.6
Digital games receivables	4.5	4.3
Unrealized foreign exchange gain	2.8	3.7
Other	1.4	3.9
Other receivables	82.0	73.4

Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2021 and September 30, 2020

10. Inventories

(US\$ millions)	Sep 30, 2021	Dec 31, 2020
Raw materials	8.2	7.8
Finished goods	174.9	94.2
Inventories	183.1	102.0

Inventories recorded as at September 30, 2021 are net of an inventory provision of \$9.0 million that was recorded for the write-down of inventories to net realizable value (December 31, 2020 - \$10.2 million).

The cost of inventories recognized as an expense in cost of sales for the three and nine months ended September 30, 2021 was \$286.2 million (2020 - \$252.6 million) and \$561.2 million (2020 - \$474.5 million), respectively.

11. Other assets

(US\$ millions)	Notes	Sep 30, 2021	Dec 31, 2020
Deposits related to acquisition of Rubik's	25	—	3.0
Unamortized financing costs related to Facility	18	1.6	0.7
Investment in a limited partnership		4.2	3.0
Minority interest investments		2.4	—
Other assets		8.2	6.7

(US\$ millions)	Sep 30, 2021	Dec 31, 2020
Current	—	3.0
Non-current	8.2	3.7
Other assets	8.2	6.7

Investment in a limited partnership

For the three and nine months ended September 30, 2021, the Company recognized a net unrealized gain in other income in the condensed consolidated interim statements of earnings and comprehensive income of nil (2020 - nil) and \$1.2 million (2020 - nil), respectively. The Company recognized distribution income for the three and nine months ended September 30, 2021 in other income of \$0.2 million (2020 - nil) and \$0.6 million (2020 - nil), respectively.

The Company has paid \$2.7 million and is obligated to pay the remaining \$0.3 million upon receiving capital calls over the remaining term of the limited partnership agreement. The investment in a limited partnership is held for medium to long-term strategic purposes (see Note 26).

Investment in Hoot Reading

In the third quarter of 2021, the Company paid \$1.8 million for a minority interest in Hoot Reading Inc. ("Hoot Reading"), a Canadian children's education technology company. There were no gains or losses recognized for the three months ended September 30, 2021 recognized in other income in the condensed consolidated interim statements of earnings and comprehensive income. The minority investment is held for medium to long-term strategic purposes (see Note 26).

Investment in Nørdlight

In the third quarter of 2021, the Company paid \$0.6 million for a minority interest in Nørdlight Games AB ("Nørdlight"), a Swedish mobile game development company. The Company has elected to recognize any changes in fair value through other comprehensive income. Based on the nature of the investment, this classification is considered to be more relevant. There were no gains or losses recognized for the three months ended September 30, 2021 recognized in the condensed consolidated interim statements of earnings and comprehensive income. The minority investment is held for medium to long-term strategic purposes (see Note 26).

Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2021 and September 30, 2020

12. Assets held for sale

The company is committed to divest of a group of assets and an active program to locate a buyer has been initiated. These assets, which are expected to be sold within 12 months, have been classified as a disposal group held for sale and presented separately in the condensed consolidated interim statement of financial position at the lower of their carrying amount and fair value less costs to sell at the time of the reclassification. The proceeds of disposal are expected to exceed the carrying amount of the related net assets and accordingly no impairment losses have been recognized on the classification of the disposal group held for sale. The assets of the disposal group are subject to adjustment, based on the carrying value of the assets at the time of the completion of the sale.

13. Property, plant and equipment

(US\$ millions)	Note	Moulds, dies and tools	Equipment	Land and leasehold improvements	Computer hardware	Total
Cost						
December 31, 2019		128.9	29.7	39.1	14.2	211.9
Additions		18.9	1.4	0.3	0.4	21.0
Disposals		(2.8)	(0.1)	—	(0.1)	(3.0)
Impairments		—	(0.6)	—	—	(0.6)
Foreign currency translation		7.5	0.8	0.7	0.5	9.5
Balance at December 31, 2020		152.5	31.2	40.1	15.0	238.8
Additions		18.5	3.2	0.2	1.3	23.2
Disposals		(3.4)	(0.1)	(0.2)	(1.5)	(5.2)
Assets recognized upon acquisition	25	0.1	0.2	—	—	0.3
Foreign currency translation		1.1	(0.4)	(0.2)	(0.3)	0.2
Transfer to intangible assets		—	—	—	(2.2)	(2.2)
Assets reclassified as held for sale		(1.2)	(4.6)	(0.2)	—	(6.0)
Balance at September 30, 2021		167.6	29.5	39.7	12.3	249.1
Accumulated depreciation						
December 31, 2019		(104.3)	(16.4)	(14.8)	(9.6)	(145.1)
Depreciation		(23.6)	(4.2)	(6.3)	(1.6)	(35.7)
Disposals		2.8	0.2	—	0.1	3.1
Impairments		—	0.1	—	—	0.1
Foreign currency translation		(5.5)	(1.2)	(0.7)	(0.4)	(7.8)
Balance at December 31, 2020		(130.6)	(21.5)	(21.8)	(11.5)	(185.4)
Depreciation		(17.3)	(2.6)	(4.7)	(1.0)	(25.6)
Disposals		3.3	0.1	0.2	0.7	4.3
Foreign currency translation		(0.4)	(0.5)	0.1	0.2	(0.6)
Assets reclassified as held for sale		1.0	2.8	0.1	—	3.9
Balance at September 30, 2021		(144.0)	(21.7)	(26.1)	(11.6)	(203.4)
Net carrying amount						
Balance at December 31, 2020		21.9	9.7	18.3	3.5	53.4
Balance at September 30, 2021		23.6	7.8	13.6	0.7	45.7

At September 30, 2021, the Company assessed tangible assets for any indication of impairment and noted no indicators. Impairment losses are recorded when the carrying amount of the asset exceeds its recoverable amount. For the three and nine months ended September 30, 2021, the Company recorded no impairment losses (2020 - nil).

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14. Intangible assets

(US\$ millions)	Note	Brands - indefinite	Trademarks, licenses, intellectual properties & customer lists - definite	Content development	Computer software	Total
Cost						
December 31, 2019		115.7	51.7	164.5	25.9	357.8
Additions		—	1.2	50.6	5.9	57.7
Disposals		—	—	—	(0.2)	(0.2)
Impairments		—	—	(0.4)	—	(0.4)
Assets recognized upon acquisition		—	2.4	—	—	2.4
Foreign currency translation		1.8	(0.5)	9.5	1.1	11.9
Balance at December 31, 2020		117.5	54.8	224.2	32.7	429.2
Additions		—	0.5	35.7	1.3	37.5
Impairments		—	—	(1.4)	—	(1.4)
Assets recognized upon acquisition	25	39.7	0.8	6.7	—	47.2
Foreign currency translation		0.1	(0.1)	(3.5)	0.1	(3.4)
Transfer to intangible assets		—	—	2.2	—	2.2
Balance at September 30, 2021		157.3	56.0	263.9	34.1	511.3
Accumulated amortization						
December 31, 2019		—	(18.5)	(136.7)	(20.2)	(175.4)
Amortization		—	(7.7)	(41.7)	(4.6)	(54.0)
Disposal		—	—	—	0.2	0.2
Foreign currency translation		—	—	(7.2)	(0.8)	(8.0)
Balance at December 31, 2020		—	(26.2)	(185.6)	(25.4)	(237.2)
Amortization		—	(4.6)	(45.7)	(2.8)	(53.1)
Foreign currency translation		—	—	(0.6)	(0.1)	(0.7)
Balance at September 30, 2021		—	(30.8)	(231.9)	(28.3)	(291.0)
Net carrying amount						
Balance at December 31, 2020		117.5	28.6	38.6	7.3	192.0
Balance at September 30, 2021		157.3	25.2	32.0	5.8	220.3

Intangible assets recognized upon acquisition include \$37.4 million and \$2.3 million for indefinite life brand assets relating to Rubik's and Originator Inc., respectively, \$0.7 million and \$0.1 million for customer relationships relating to Rubik's and Originator Inc., respectively, and \$6.7 million for content development relating to Originator Inc., as described in Note 25. The balances have been included in the Company's assessment for any indication of impairment.

During the three months ended September 30, 2021, the Company delivered assets for an entertainment production, and accordingly, amortized previously capitalized production costs in the amount of \$23.0 million.

At September 30, 2021, the Company assessed intangible assets for any indication of impairment. Impairment losses are recorded when the carrying amount of the asset exceeds its recoverable amount. The Company recorded an impairment loss for the three and nine months ended September 30, 2021 of nil (2020 - nil) and \$1.4 million (2020 - nil) related to certain content development projects, respectively.

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15. Goodwill

(US\$ millions)	Notes	Sep 30, 2021	Dec 31, 2020
Balance, beginning of period		138.0	138.8
Assets recognized upon acquisition during the period	25	38.3	—
Measurement period purchase price adjustment - Orbeez		—	(0.7)
Proceeds from sale during the period		—	(0.3)
Foreign currency translation		(0.3)	0.2
Assets reclassified as held for sale		(2.3)	—
Balance, end of period		173.7	138.0

Additions during the nine months ended September 30, 2021 include \$22.6 million relating to the acquisition of Rubik's, \$7.5 million relating to the acquisition of certain assets from a product invention and development company and \$8.2 million relating to the acquisition of Originator Inc., as described in Note 25. These balances will be assessed for impairment within their respective CGUs.

At September 30, 2021, the Company assessed goodwill for any indication of impairment and noted no indicators. There have been no impairment losses recognized with respect to goodwill for the three and nine months ended September 30, 2021 (2020 - nil).

16. Trade payables and accrued liabilities

(US\$ millions)	Sep 30, 2021	Dec 31, 2020
Trade payables	297.4	161.4
Accrued liabilities	168.3	153.0
Trade payables and accrued liabilities	465.7	314.4

Accrued liabilities are comprised of payroll related liabilities, accrued royalties, commodity tax and other balances. As at September 30, 2021, a restructuring liability of \$0.5 million relating to 2020 is included in accrued liabilities (December 31, 2020 - \$1.1 million).

17. Contract liabilities

Contract liabilities are comprised of advances on contracts relating to entertainment and licensing revenue, which arise as a result of consideration received in advance of the Company fulfilling its obligations. As at September 30, 2021, the Company had deferred revenue of \$7.7 million (December 31, 2020 - \$25.3 million).

The Company recognized revenue during the three and nine months ended September 30, 2021 of \$21.3 million (2020 - \$4.0 million) and \$24.1 million (2020 - \$8.0 million), respectively previously deferred in contract liabilities. There was no revenue recognized that related to performance obligations from a prior year.

18. Loans and borrowings

Unsecured Debt

Bank Facilities

- (i) On September 28, 2021, the Company entered into an agreement to amend and restate its existing \$510.0 million secured five-year revolving credit facility (the "Facility"). Under the terms of the amended and restated agreement, the Facility is now unsecured, matures on September 28, 2026 and contains certain financial covenants. The Facility also has an option which permits the Company to increase the total capital available by an additional \$200.0 million. Total financing costs of \$1.6 million, which include Facility amendment fees and related legal fees, are recognized in Other assets and will be amortized over the term of the amended and restated agreement.

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18. Loans and borrowings (continued)

As at September 30, 2021, there were \$0.4 million (December 31, 2020 - \$0.4 million) in letters of credit utilized under the Facility and no amounts drawn (December 31, 2020 - nil) under this Facility.

This facility is subject to the maintenance of certain financial covenants. The Company was in compliance with all financial covenants as at September 30, 2021 and December 31, 2020.

Bank Overdraft Facility

- (ii) The Company has an uncommitted Overdraft Facility Agreement (the "European Facility") for €15.0 million (\$17.3 million US\$). The European Facility will be used to fund working capital requirements in Europe. As at September 30, 2021, the outstanding balance was nil (December 31, 2020 - nil).

Secured Debt

Bank Facilities

- (iii) The Company has a Revolving Credit Facility to finance television and film production. The limit of the credit facility (the "Production Facility") is \$10.0 million CAD (\$7.9 million US\$). As at September 30, 2021, the balance of the Production Facility was nil (December 31, 2020 - nil).

19. Provisions and contingent liabilities

(US\$ millions)	Sep 30, 2021	Dec 31, 2020
Defectives (i)	15.4	13.0
Supplier liabilities (ii)	4.3	5.6
Contingent consideration, acquisitions (iii)	16.9	15.8
Provisions and contingent liabilities	36.6	34.4
Current	27.3	29.2
Non-current	9.3	5.2
Provisions and contingent liabilities	36.6	34.4

Provisions

- (i) Defectives occur 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 of the product and reduces the net sales figure on the condensed consolidated interim statements of earnings 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 condensed consolidated interim statements of earnings and comprehensive income.

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19. Provisions and contingent liabilities (continued)

- (iii) Certain business combinations include a royalty payable or deferred incentive compensation. The fair value of the total contingent consideration on September 30, 2021 was \$16.9 million (December 31, 2020 - \$15.8 million) and is based on the achievement of certain financial performance criteria and/or continued employment. The accretion of the royalty is recorded in finance costs in the condensed consolidated interim statements of earnings and comprehensive income. The accrual of deferred incentive compensation is recorded in Other expenses (income) in the condensed consolidated interim statements of earnings 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.

20. Share capital

(a) Authorized as at September 30, 2021 and December 31, 2020

- Unlimited number of multiple voting shares;
- Unlimited number of subordinate voting shares; and
- Unlimited number of preferred shares issuable in series.

Multiple voting shares and subordinate voting shares entitle the holder to receive dividends, and to receive the proceeds of liquidation, dissolution or winding up the Company in proportion to the number of shares held. These rights are subject to the prior rights of the holders of any shares ranking prior to the multiple voting shares and the subordinate voting shares.

The holders of the multiple voting shares are entitled to 10 votes for each share held and the holders of the subordinate voting shares are entitled to 1 vote for each share held.

Multiple voting shares are convertible at any time into an equivalent number of subordinate voting shares. Subordinate voting shares do not have any redemption or conversion rights.

Preferred shares of each series will be entitled to preference over the multiple voting shares and subordinate voting shares with respect to the payment of dividends and to receive the proceeds of liquidation, dissolution or winding up of the Company.

	Nine Months Ended Sep 30 2021		Year Ended Dec 31 2020	
	Shares (millions)	Amount (US\$ millions)	Shares (millions)	Amount (US\$ millions)
<u>Multiple voting shares:</u>				
Balance, beginning of period	70.6	360.5	70.6	360.5
Balance, end of period	70.6	360.5	70.6	360.5
<u>Subordinate voting shares:</u>				
Balance, beginning of period	31.4	364.3	31.6	354.0
Issuance of subordinate voting shares	0.3	10.5	0.2	11.4
Forfeiture/cancellation of subordinate voting shares	—	—	(0.4)	(1.1)
Balance, end of period	31.7	374.8	31.4	364.3
Shares issued and outstanding, end of period	102.3	735.3	102.0	724.8

As at September 30, 2021, the Company does not hold any of its outstanding shares (2020 - nil).

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20. Share capital (continued)

(b) Share-based plans

Participation arrangements

The Company had equity participation arrangements ("Participation Arrangements") with six senior employees and four former employees pursuant to which all were entitled to receive a cash payment and shares on the Initial Public Offering of the Company. 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 Public 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 Public 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 Public 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 September 30, 2021, there are no subordinate voting shares outstanding relating to the Participation Arrangements (December 31, 2020 - 151,993 subordinate voting shares with a weighted average grant date fair value of \$2.1 million).

On February 18, 2020, the Company announced changes to senior leadership. As a result of these changes, 301,160 subordinate voting shares were forfeited and 133,550 subordinate voting shares with a fair value of \$1.1 million were canceled.

Share based compensation expense of \$4.2 million (2020 - \$4.2 million) relating to Participation Arrangements is recorded in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the nine months ended September 30, 2021.

Long-Term Incentive Plan

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, restricted stock and any other equity based awards.

The Company settled vested LTIP grants during the nine months ended September 30, 2021 through the issuance of shares. The settlements resulted in a transfer of \$8.3 million (2020 - \$2.7 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 September 30, 2021 and December 31, 2020.

	Sep 30, 2021	Dec 31, 2020
(number of units)		
Outstanding, beginning of period	1,745,045	713,908
Granted	669,559	1,418,898
Exercised	(305,741)	(260,854)
Forfeited	(48,639)	(126,907)
Outstanding, end of period	2,060,224	1,745,045

Included in the above table are 1,105,860 PSUs outstanding as at September 30, 2021 (December 31, 2020 - 918,929).

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20. Share capital (continued)

Share based compensation expense of \$6.9 million (2020 - \$4.6 million) relating to RSUs and PSUs is recorded in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the nine months ended September 30, 2021 with corresponding entries recorded in contributed surplus.

Deferred Share Units ("DSUs")

Below is a summary of the activity related to DSUs outstanding as at September 30, 2021 and December 31, 2020.

	Sep 30, 2021	Dec 31, 2020
(number of units)		
Outstanding, beginning of period	121,771	78,311
Granted	26,313	43,460
Outstanding, end of period	148,084	121,771

Share based compensation expense of \$0.9 million (2020 - \$0.5 million) with a mark to market expense of \$1.2 million (2020 - gain of \$0.4 million) relating to DSUs is recorded in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the nine months ended September 30, 2021. 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 this plan, the exercise price of each option equals the market price of the Company's shares on the date of grant and the Options have a maximum term of ten years. The Options vest ratably over four years.

The Company did not issue any Options in 2021 and 2020. As at September 30, 2021, 545,322 (December 31, 2020 - 545,322) Options were outstanding with a weighted average exercise price of \$34.42 CAD (December 31, 2020 - \$34.42 CAD).

Share based compensation expense of \$0.2 million (2020 - \$0.5 million) relating to Options is recorded in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the nine months ended September 30, 2021.

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

	Nine Months Ended Sep 30	
(US\$ millions)	2021	2020
Equity-settled RSUs and PSUs	6.9	4.6
Equity-settled Participation Arrangement transactions	4.2	4.2
Share purchase options	0.2	0.5
Share based compensation expense	11.3	9.3

Share based compensation expense of \$11.3 million (2020 - \$9.3 million) is recorded in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the nine months ended September 30, 2021. A corresponding amount was recorded in contributed surplus.

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21. Earnings per share

Three Months Ended Sep 30				
	2021		2020	
(Number of shares in millions)	Weighted average number of shares	Per share amount (US\$)	Weighted average number of shares	Per share amount (US\$)
Basic	102.3	1.32	102.0	0.85
Diluted	105.2	1.29	104.0	0.83

Nine Months Ended Sep 30				
	2021		2020	
(Number of shares in millions)	Weighted average number of shares	Per share amount (US\$)	Weighted average number of shares	Per share amount (US\$)
Basic	102.3	1.68	102.0	0.44
Diluted	105.2	1.64	104.0	0.43

The Participation Arrangements issued to employees upon the Initial Public 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.

22. Net changes in non-cash working capital

Nine Months Ended Sep 30		
(US\$ millions)	2021	2020
Decrease (increase) in:		
Trade receivables	(152.1)	32.7
Other receivables	(3.5)	4.2
Inventories	(77.3)	27.6
Prepaid expenses	(0.7)	8.8
Other assets	(0.1)	—
Advances on royalties	0.1	2.7
Assets reclassified as held for sale	(2.5)	—
	(236.1)	76.0
(Decrease) increase in:		
Trade payables and accrued liabilities	144.7	(40.0)
Contract liabilities	(17.7)	8.3
Provisions and contingent liabilities	(8.8)	(0.7)
Other	0.5	5.9
	118.7	(26.5)
Total net changes in non-cash working capital	(117.4)	49.5

23. Leases

Amounts recognized in the statement of financial position

Leased office buildings represented approximately 90% of the right-of-use assets with the remainder comprised of leases of distribution centres, information technology ("IT") equipment, and vehicles.

The Company has categorized leases of office buildings and distribution centres as "Building" and IT equipment and vehicles as "Equipment". The weighted average lease term is 11 years. The carrying value of Right-of-use assets and depreciation by class of underlying assets at September 30, 2021 are as follows:

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23. Leases (continued)

(US\$ millions)	Building	Equipment	Right-of-use assets
January 1, 2020	75.4	2.9	78.3
Additions	0.7	0.4	1.1
Disposals	(0.1)	—	(0.1)
Depreciation and amortization	(12.0)	(1.3)	(13.3)
Foreign currency translation	1.0	—	1.0
December 31, 2020	65.0	2.0	67.0
Additions	—	0.2	0.2
Assets recognized upon acquisition (Note 25)	0.6	—	0.6
Modifications	7.6	—	7.6
Depreciation and amortization	(9.4)	(0.8)	(10.2)
Foreign currency translation	(0.4)	(0.1)	(0.5)
September 30, 2021	63.4	1.3	64.7

(US\$ millions)	Lease liabilities
January 1, 2020	82.7
Additions	1.1
Disposals	(0.1)
Accretion	4.6
Lease payments	(15.2)
Foreign currency translation	1.3
December 31, 2020	74.4
Additions	0.3
Liabilities recognized upon acquisition (Note 25)	0.7
Modifications	7.7
Accretion	3.3
Lease payments	(13.5)
Foreign currency translation	(0.6)
September 30, 2021	72.3

(US\$ millions)	Sep 30, 2021	Dec 31, 2020
Lease liabilities, current	15.1	15.4
Lease liabilities, non-current	57.2	59.0
Total lease liabilities	72.3	74.4

24. Commitments for expenditures

As at September 30, 2021, the Company had minimum guarantees due to licensors of \$40.5 million (December 31, 2020 - \$37.7 million).

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25. Business acquisitions

Acquisition of Originator Inc.

On June 14, 2021, the Company acquired 100% of the shares of Originator Inc., which qualifies as a business under IFRS 3, *Business Combinations*. Originator Inc. is a developer and publisher of education focused mobile apps for kids and families. The acquisition has been reported in the Toca Boca CGU and its revenue is included within digital games revenue beginning from the date of acquisition.

The total purchase consideration was comprised of \$15.0 million of cash consideration. The total purchase consideration has been allocated to identifiable intangible assets based on their estimated fair values of \$9.1 million (related to brands, customer relationships and content development), tangible assets of \$0.6 million and assumed liabilities of \$2.9 million with the remainder allocated to goodwill. The purchase price allocation was finalized in the Company's third quarter 2021 condensed consolidated interim financial statements.

The purchase agreement also includes deferred consideration of \$4.0 million which is contingent on meeting certain performance metrics and has been allocated a fair value of nil in the total purchase consideration.

The Company incurred \$0.1 million and \$0.3 million in transaction related costs which were included in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the three and nine months ended September 30, 2021, respectively.

Assets acquired and liabilities recognized at the date of acquisition

(US\$ millions)	Fair value as at June 14, 2021
Assets acquired	
Cash	0.2
Trade receivables	0.4
Intangible assets	9.1
	9.7
Liabilities assumed	
Trade payables and accrued liabilities	0.4
Deferred income tax liabilities	2.5
	2.9
Fair value of identifiable net assets acquired	6.8

Goodwill arising on acquisition

Cash consideration	15.0
Fair value of identifiable net assets acquired	6.8
Goodwill arising from transaction	8.2

Net cash outflow on acquisition

Cash consideration	15.0
Less: cash balance acquired (\$0.6 million payable as at September 30, 2021)	0.2
Net cash outflow on acquisition	14.8

Goodwill arose on the acquisition as the consideration paid effectively included amounts for the benefit of expected 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. Goodwill recognized is not expected to be deductible for income tax purposes.

25. Business acquisitions (*continued*)

The purchase agreement includes total deferred consideration of \$10.0 million which is contingent on the continued employment of key principals as well as certain performance metrics, over a five-year period. These payments are considered an incentive-related remuneration expense and are accrued over the five-year period. Deferred remuneration expense of \$1.2 million and \$1.4 million is included in Other expenses (income) in the condensed consolidated interim statements of earnings and comprehensive income for the three and nine months ended September 30, 2021, respectively, and in non-current provisions and contingent liabilities in the condensed consolidated interim statements of financial position.

Impact of acquisition on the results of the Company

Included in the Company's financial results for the three and nine months ended September 30, 2021 is \$1.0 million and \$1.3 million, respectively in revenue attributable to Originator Inc.

Acquisition of certain assets from a product invention and development company

On April 16, 2021, the Company acquired assets and assumed liabilities of a product invention and development company which constitutes a business under IFRS 3. Included in the acquisition is an assembled workforce. The acquisition has been reported in the Toy CGU beginning from the date of acquisition.

The total purchase consideration was comprised of \$7.5 million of cash consideration and has been allocated as \$0.7 million of tangible assets and \$0.7 million of assumed liabilities with the remainder allocated to goodwill.

The Company had pre-existing licensing arrangements for the acquired intellectual property. No gain/loss from the settlement of the pre-existing relationship was generated from this transaction.

The Company incurred nil and \$0.2 million in transaction related costs which were included in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the three and nine months ended September 30, 2021, respectively.

Assets acquired and liabilities recognized at the date of acquisition

(US\$ millions)	Fair value as at April 16, 2021
Assets acquired	
Property, plant and equipment	0.1
Right-of-use assets	0.6
	0.7
Liabilities assumed	
Lease liabilities	0.7
	0.7
Fair value of identifiable net assets acquired	—

Goodwill arising on acquisition

Cash consideration	7.5
Fair value of identifiable net assets acquired	—
Goodwill arising from transaction	7.5

Net cash outflow on acquisition

Cash consideration	7.5
Net cash outflow on acquisition	7.5

Goodwill arose on the acquisition as the consideration paid effectively included amounts for the benefit of expected 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, \$7.5 million of goodwill is expected to be deductible for income tax purposes and is being amortized for tax purposes over 15 years.

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25. Business acquisitions (*continued*)

The purchase agreement includes deferred consideration of \$14.5 million which is contingent on continued employment of key principals over a five-year period. These payments are considered an incentive-remuneration expense and are accrued over the five-year period. Deferred remuneration expense of \$1.5 million and \$2.8 million is included in Other expenses (income) in the condensed consolidated interim statements of earnings and comprehensive income for the three and nine months ended September 30, 2021, respectively, and in non-current provisions and contingent liabilities in the condensed consolidated interim statements of financial position.

Acquisition of Rubik's Brand Limited

On January 4, 2021, the Company completed the acquisition of Rubik's Brand Limited by acquiring 100% of the shares of its holding company, Rubiks Malta Holding Company Limited ("Rubik's"). Rubik's is a licensor and distributor of various editions of the Rubik's product lines and qualifies as a business under IFRS 3. The Company secured the global intellectual property for the Rubik's portfolio and the ability to sell, market and license for further penetration directly to wholesale customers or continue to sell indirectly through distributors into markets as well as expansion into new territories. The brand has been reported in the Activities, Games & Puzzles and Plush product category and included in the Rubik's CGU beginning from the date of acquisition.

The total purchase consideration of \$55.2 million was comprised of \$51.4 million of cash consideration plus \$3.8 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 \$38.1 million (related to brands and customer relationships), tangible assets of \$6.5 million and assumed liabilities of \$12.0 million with the remainder allocated to goodwill.

The Company incurred transaction related costs of \$1.1 million. \$0.9 million was recorded in administrative expenses in the condensed consolidated interim statement of earnings and comprehensive income for the year ended December 31, 2020 and \$0.2 million was recorded in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the nine months ended September 30, 2021.

Assets acquired and liabilities recognized at the date of acquisition

(US\$ millions)	Fair value as at January 4, 2021
Assets acquired	
Cash	1.1
Trade receivables	4.0
Inventories	0.7
Prepaid expenses	0.5
Property, plant and equipment	0.2
Intangible assets	38.1
	44.6
Liabilities assumed	
Trade payables and accrued liabilities	4.4
Deferred income tax liabilities	7.2
Income tax payable	0.4
	12.0
Fair value of identifiable net assets acquired	32.6

Goodwill arising on acquisition

Cash consideration	52.6
Purchase price adjustment (receivable at June 30, 2021)	(1.2)
Present value of future royalties	3.8
Total purchase consideration	55.2
Fair value of identifiable net assets acquired	32.6
Goodwill arising from transaction	22.6

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25. Business acquisitions (*continued*)

Net cash outflow on acquisition

Cash consideration	52.6
Less: cash balance acquired	1.1
Total net cash outflow	51.5
Less: advance paid in 2020	3.0
Net cash outflow on acquisition	48.5

Trade receivables acquired of \$4.1 million have a fair value of \$4.0 million.

Goodwill arose on the acquisition of Rubik's 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. Goodwill recognized is not expected to be deductible for income tax purposes.

The total purchase consideration includes \$3.8 million in deferred payments for future royalties. The future royalties are payable to the vendor upon the achievement of key performance indicators over a six-year period. The potential undiscounted amount of all future payments that the Company could be required to make under this contingent consideration arrangement is between nil and \$5.7 million.

Impact of acquisition on the results of the Company

Included in the Company's financial results for the three and nine months ended September 30, 2021 is \$7.5 million and \$14.6 million respectively in revenue attributable to Rubik's.

26. Financial instruments and risk management

Fair value measurements

The carrying amounts of financial assets or liabilities of the Company that approximate their fair values as follows:

(US\$ millions)	Sep 30, 2021	Dec 31, 2020
Financial assets		
Cash	360.5	320.6
Trade receivables	417.3	265.2
Other receivables	82.0	73.4
Other assets	8.2	6.7
Financial assets	868.0	665.9
Financial liabilities		
Trade payables and accrued liabilities	465.7	314.4
Provisions and contingent liabilities	36.6	34.4
Financial liabilities	502.3	348.8

The Company records foreign exchange forward contracts at fair value in the financial statements. The fair value of foreign exchange forward contracts at September 30, 2021 represented an asset of \$2.8 million recorded in other receivables and a liability of \$0.7 million recorded in accrued liabilities (December 31, 2020 - an asset of \$3.7 million and a liability of \$7.2 million). Derivative fair values are categorized within Level 2 of the fair value hierarchy. Fair values reflect the credit risk of the instrument for the Company and counterparty when appropriate. 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. Realized and unrealized gains and losses on derivative financial instruments may be offset by realized and unrealized losses and gains on the underlying exposures being hedged and are recorded in earnings as they occur.

Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2021 and September 30, 2020

26. Financial instruments and risk management (continued)

The fair value of the investment in a limited partnership as at September 30, 2021 is recorded in other assets at \$4.2 million (2020 - \$3.0 million) with a net unrealized gain for the three and nine months ended September 30, 2021 recognized in other income in the condensed consolidated interim statements of earnings and comprehensive income of nil (2020 - nil) and \$1.2 million (2020 - nil), respectively. This fair value is categorized within Level 3 of the fair value hierarchy. The fair value of the investment in a limited partnership is estimated using various valuations techniques through the partnership based on the type of investment held by the fund. The quantitative unobservable inputs used in the fair value measurement are not developed by the Company.

The fair value of the minority investment in Hoot Reading as at September 30, 2021 is recorded in other assets at \$1.8 million (2020 - nil). There were no gains or losses recognized for the three months ended September 30, 2021 recognized in other income in the condensed consolidated interim statements of earnings and comprehensive income. This fair value is categorized within Level 3 of the fair value hierarchy. The fair value of the investment in preferred shares is estimated using various valuation techniques. The quantitative unobservable inputs used in the fair value measurement are not developed by the Company.

The fair value of the minority investment in Nørdlight as at September 30, 2021 is recorded in other assets at \$0.6 million (2020 - nil). This fair value is categorized within Level 3 of the fair value hierarchy. There were no gains or losses recognized for the three months ended September 30, 2021 recognized in the condensed consolidated interim statements of earnings and comprehensive income. The fair value of the investment in equity instruments is estimated using various valuations techniques. The quantitative unobservable inputs used in the fair value measurement are not developed by the Company.

Foreign currency risk

Due to the structure 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 with various financial institutions to manage foreign currency risk.

As at September 30, 2021, the Company is committed under outstanding foreign exchange contracts representing a total net purchase commitment of \$80.0 million (December 31, 2020 - \$11.3 million). These foreign exchange contracts have maturity dates varying from October 2021 to December 2022. For the nine months ended September 30, 2021, realized loss on the Company's matured hedges were \$0.4 million (2020 - realized gains of \$0.7 million) and is included in the condensed consolidated in statement of earnings and comprehensive income.

As at September 30, 2021 (in millions)	Notional value: foreign currency	Notional value: US\$	Unrealized gain (loss): US\$
Foreign exchange contracts			
Buy US\$	69.2 EUR	(82.6)	2.3
Buy US\$	31.1 GBP	(42.4)	0.5
Buy US\$	550.0 MXN	(26.2)	0.1
Sell US\$	(89.6) CAD	71.2	(0.7)
Total		(80.0)	2.2

As at December 31, 2020 (in millions)	Notional value: foreign currency	Notional value: US\$	Unrealized (loss) gain: US\$
Foreign exchange contracts			
Buy US\$	42.5 EUR	(49.4)	(2.9)
Buy US\$	25.0 GBP	(31.9)	(2.3)
Buy US\$	360.6 MXN	(15.9)	(2.0)
Sell US\$	(114.2) CAD	85.9	3.7
Total		(11.3)	(3.5)

Spin Master Corp.

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27. Segment information

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

- (i) Preschool & Girls
- (ii) Activities, Games & Puzzles and Plush
- (iii) Boys
- (iv) 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.

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, Turkey, Russia and Greece. The Rest of World segment is primarily comprised of Hong Kong, China, Vietnam, India, Australia, New Zealand, Japan and Mexico, and all other areas of the world serviced by the Company's third party distribution network.

Segment revenue and results

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

(US\$ millions)	Three Months Ended Sep 30,		Nine Months Ended Sep 30,	
	2021	2020	2021	2020
Revenue by segment				
North America	412.5	362.4	835.5	711.0
Europe	192.6	159.8	343.2	283.0
Rest of World	76.1	65.2	156.2	117.9
Gross product sales	681.2	587.4	1,334.9	1,111.9
Sales allowances	(73.4)	(64.1)	(145.1)	(130.6)
Net sales	607.8	523.3	1,189.8	981.3
Entertainment and Licensing revenue	52.9	20.5	107.3	53.8
Digital games revenue	53.8	27.8	124.8	44.9
Revenue	714.5	571.6	1,421.9	1,080.0
Segment income before tax (recovery) expense				
North America	124.8	35.4	164.8	7.7
Europe	30.9	26.6	37.7	3.5
Rest of World	18.4	37.6	20.0	6.4
Total segment income before tax (recovery) expense	174.1	99.6	222.5	17.6
Corporate and other	3.1	1.9	3.5	(3.8)
Income before income tax (recovery) expense	177.2	101.5	226.0	13.8

Revenues for North America include revenues attributable to Canada of \$68.1 million (2020 - \$59.6 million) and \$155.6 million (2020 - \$118.7 million) for the three and nine months ended September 30, 2021, respectively.

Revenue reported by segment above represents revenue generated from external customers. There were no inter-segment sales in the current year (2020 - 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").

Spin Master Corp.

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27. Segment information (continued)

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 (recovery) expense earned by each segment prior to any allocation of other expenses, foreign exchange loss 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)	Sep 30, 2021	Dec 31, 2020
North America	1,183.6	971.4
Europe	327.6	217.6
Rest of World	128.7	111.3
Total segment assets	1,639.9	1,300.3
Corporate and other	45.5	41.8
Total assets	1,685.4	1,342.1

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

(US\$ millions)	Sep 30, 2021	Dec 31, 2020
Non-current assets		
North America	389.6	426.4
Europe	81.1	33.2
Rest of World	21.7	19.9
Total segment non-current assets	492.4	479.5
Corporate and other	116.9	73.3
Total non-current assets	609.3	552.8

Non-current assets for North America include assets attributable to Canada of \$117.8 million as at September 30, 2021 (December 31, 2020 - \$139.3 million).

Segment liabilities

(US\$ millions)	Sep 30, 2021	Dec 31, 2020
North America	529.7	410.7
Europe	95.3	84.9
Rest of World	64.9	39.4
Total segment liabilities	689.9	535.0
Corporate and other	(26.8)	(35.8)
Total liabilities	663.1	499.2

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 accrued liabilities) and deferred tax liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

Spin Master Corp.

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27. Segment information (continued)

Capital expenditures by reportable segment

(US\$ millions)	Three Months Ended Sep 30,		Nine Months Ended Sep 30,	
	2021	2020	2021	2020
North America	14.6	18.3	47.4	55.5
Europe	1.9	1.1	4.7	4.4
Rest of World	3.5	1.8	8.6	4.3
Total capital expenditures	20.0	21.2	60.7	64.2

Depreciation and amortization by reportable segment

(US\$ millions)	Three Months Ended Sep 30,		Nine Months Ended Sep 30,	
	2021	2020	2021	2020
North America	37.3	21.6	75.4	61.2
Europe	2.5	2.9	7.7	7.7
Rest of World	1.3	1.1	3.7	3.3
Total segment depreciation and amortization	41.1	25.6	86.8	72.2
Corporate and other	0.6	0.8	2.1	3.2
Total depreciation and amortization	41.7	26.4	88.9	75.4

Impairment losses of \$1.4 million were recognized in respect of intangible assets in North America for the nine months ended September 30, 2021 (2020 - nil).

Revenue from major product categories

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

(US\$ millions)	Three Months Ended Sep 30,		Nine Months Ended Sep 30,	
	2021	2020	2021	2020
Preschool & Girls	311.0	242.7	557.8	409.3
Activities, Games & Puzzles and Plush	195.8	181.0	381.3	360.9
Boys	153.8	151.4	299.5	266.2
Outdoor	20.6	12.3	96.3	75.5
Gross product sales	681.2	587.4	1,334.9	1,111.9
Sales allowances	(73.4)	(64.1)	(145.1)	(130.6)
Net sales	607.8	523.3	1,189.8	981.3
Entertainment and Licensing revenue	52.9	20.5	107.3	53.8
Digital games revenue	53.8	27.8	124.8	44.9
Revenue	714.5	571.6	1,421.9	1,080.0

Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2021 and September 30, 2020

27. Segment information (*continued*)

Major customers

Sales to the Company's three largest customers accounted for 51.1% (2020 - 48.7%) and 52.2% (2020 - 50.4%) of gross product sales for the three and nine months ended September 30, 2021, respectively. Other than the top three customers, which have remained the same year over year, no other single customer contributed 10% or more to gross product sales for the three and nine months ended September 30, 2021 (2020 - nil).

(US\$ millions)	Three Months Ended Sep 30,		Nine Months Ended Sep 30,	
	2021	2020	2021	2020
Gross product sales				
Customer 1	131.6	126.4	290.7	262.5
Customer 2	117.2	92.2	224.8	180.1
Customer 3	99.5	67.6	180.8	117.5
Total	348.3	286.2	696.3	560.1

28. Prior year comparatives

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