

Spin Master Corp.

Condensed consolidated interim financial statements (unaudited)

For the three and nine months ended September 30, 2022 and September 30, 2021

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

Table of contents

Condensed consolidated interim statements of financial position	1
Condensed consolidated interim statements of earnings and comprehensive income	2
Condensed consolidated interim statements of changes in shareholders' equity.....	3
Condensed consolidated interim statements of cash flows	4
Notes to the Condensed consolidated interim financial statements	5 - 32

Spin Master Corp.

Condensed consolidated interim statements of financial position

(Unaudited, in US\$ millions)	Notes	Sep 30, 2022	Dec 31, 2021
Assets			
Current assets			
Cash and cash equivalents		674.9	562.7
Trade receivables	9	255.1	327.9
Other receivables	9	85.7	66.7
Inventories	10	178.5	137.4
Prepaid expenses and other assets	11	20.2	16.1
Assets held for sale	12	—	8.9
		1,214.4	1,119.7
Non-current assets			
Intangible assets	14	257.6	227.2
Goodwill		169.8	173.1
Right-of-use assets	23	63.0	65.2
Property, plant and equipment	13	35.9	39.8
Deferred income tax assets		91.1	97.0
Other assets	11	16.9	14.7
		634.3	617.0
Total assets		1,848.7	1,736.7
Liabilities			
Current liabilities			
Trade payables and accrued liabilities	15	380.4	476.4
Deferred revenue	16	10.5	10.9
Provisions and contingent liabilities	18	27.4	25.1
Income tax payable	8	56.2	36.2
Lease liabilities	23	13.1	13.3
		487.6	561.9
Non-current liabilities			
Provisions and contingent liabilities	18	16.9	14.0
Deferred income tax liabilities		51.6	48.7
Lease liabilities	23	57.9	59.7
		126.4	122.4
Total liabilities		614.0	684.3
Shareholders' equity			
Share capital	19	754.7	736.9
Retained earnings		486.5	216.0
Contributed surplus		36.0	40.8
Accumulated other comprehensive (loss) income		(42.5)	58.7
Total shareholders' equity		1,234.7	1,052.4
Total liabilities and shareholders' equity		1,848.7	1,736.7

Approved by the Board of Directors on November 2, 2022.

The accompanying notes on pages 5 to 32 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	Nine Months Ended Sep 30,			
		Q3 2022	Q3 2021	2022	2021
Revenue	3	624.0	714.5	1,554.5	1,421.9
Cost of sales		273.6	348.5	683.1	688.6
Gross profit		350.4	366.0	871.4	733.3
Expenses					
Selling, general and administrative	6	195.3	187.1	544.3	475.1
Depreciation and amortization	6	7.1	8.0	21.8	25.6
Other expense, net	4	4.1	2.2	4.2	1.7
Foreign exchange gain	7	(43.5)	(10.8)	(66.2)	(2.2)
Operating Income		187.4	179.5	367.3	233.1
Finance costs	5	0.4	2.3	4.6	7.1
Income before income tax expense		187.0	177.2	362.7	226.0
Income tax expense	8	45.6	41.8	87.6	53.9
Net Income		141.4	135.4	275.1	172.1
Earnings per share					
Basic	20	1.37	1.32	2.67	1.68
Diluted	20	1.33	1.29	2.59	1.64
Weighted average number of shares (in millions)					
Basic	20	102.9	102.3	102.9	102.3
Diluted	20	106.3	105.2	106.3	105.2

(Unaudited, in US\$ millions)		Nine Months Ended Sep 30,			
		Q3 2022	Q3 2021	2022	2021
Net Income		141.4	135.4	275.1	172.1
Items that may be subsequently reclassified to Net Income					
Foreign currency translation loss		(70.8)	(18.4)	(101.3)	(4.0)
Items that are not subsequently reclassified to Net Income					
Gain on Minority interest and other investments	11, 26	—	—	0.1	—
Other comprehensive loss		(70.8)	(18.4)	(101.2)	(4.0)
Total comprehensive income		70.6	117.0	173.9	168.1

The accompanying notes on pages 5 to 32 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	Retained earnings	Contributed surplus	Accumulated other comprehensive income (loss)	Total
Balance at January 1, 2021		724.8	17.4	36.6	64.1	842.9
Net Income		—	172.1	—	—	172.1
Other comprehensive loss - foreign currency translation		—	—	—	(4.0)	(4.0)
Share-based compensation	19	—	—	11.3	—	11.3
Shares released from equity participation	19	2.2	—	(2.2)	—	—
Shares issued upon settlement of long-term incentive plan	19	8.3	—	(8.3)	—	—
Balance at September 30, 2021		735.3	189.5	37.4	60.1	1,022.3
Balance at January 1, 2022		736.9	216.0	40.8	58.7	1,052.4
Net Income		—	275.1	—	—	275.1
Other comprehensive loss - foreign currency translation		—	—	—	(101.3)	(101.3)
Other comprehensive income - other		—	—	—	0.1	0.1
Share-based compensation	19	—	—	12.9	—	12.9
Dividends declared	19	—	(4.6)	—	—	(4.6)
Share options exercised and common shares issued	19	0.2	—	(0.1)	—	0.1
Shares issued upon settlement of long-term incentive plan	19	17.6	—	(17.6)	—	—
Balance at September 30, 2022		754.7	486.5	36.0	(42.5)	1,234.7

The accompanying notes on pages 5 to 32 are an integral part of these Condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of cash flows

(Unaudited, in US\$ millions)	Notes	Nine Months Ended Sep 30,	
		2022	2021
Operating activities			
Net Income		275.1	172.1
Adjustments to reconcile Net Income to cash provided by operating activities			
Income tax expense	8	87.6	53.9
Interest income	5	(5.2)	(0.7)
Depreciation and amortization	6	50.3	88.9
Loss on disposal of non-current assets	12, 13, 14	1.2	0.9
Accretion expense	5	4.1	4.4
Amortization of Facility fee costs	5	0.3	0.3
Gain on investment in limited partnership, net of distribution income	26	(0.2)	(1.8)
Impairment of non-current assets	13, 14	1.0	1.4
Loss on Minority interest and other investments	4	0.5	—
Unrealized foreign exchange (gain) loss	7	(57.7)	0.3
Share-based compensation expense	19	12.9	11.3
Net changes in non-cash working capital	21	(65.8)	(117.4)
Net change in provisions, contingent liabilities, and other assets		6.1	6.2
Income taxes paid		(62.0)	(33.6)
Income taxes received		3.9	2.1
Interest received		4.0	0.7
Cash provided by operating activities		256.1	189.0
Investing activities			
Investment in property, plant and equipment	13	(22.9)	(23.2)
Investment in intangible assets	14	(53.2)	(37.5)
Business acquisitions, net of cash acquired	25	(10.2)	(70.2)
Investment distribution income	4	0.1	0.6
Investment in limited partnership	11	—	(0.9)
Minority interest and other investments	11, 26	(4.0)	(2.4)
Proceeds from sale of manufacturing operations	12	9.2	—
Cash used in investing activities		(81.0)	(133.6)
Financing activities			
Payment of lease liabilities	23	(11.9)	(13.5)
Issuance of common shares from exercise of share options	19	0.1	—
Payment of financing costs related to Facility	11, 17	—	(1.3)
Cash used in financing activities		(11.8)	(14.8)
Effect of foreign currency exchange rate changes on cash and cash equivalents		(51.1)	(0.7)
Net increase in cash and cash equivalents during the period		112.2	39.9
Cash and cash equivalents, beginning of period		562.7	320.6
Cash and cash equivalents, end of period		674.9	360.5

The accompanying notes on pages 5 to 32 are an integral part of these Condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

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 head and 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 Condensed consolidated interim financial statements, as the "Company" or "Spin Master".

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"). 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, 2021.

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 2, 2022.

(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, 2021.

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, 2022 and 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, 2021 have been applied consistently in the preparation of these Condensed consolidated interim financial statements.

Segment information

Effective January 1, 2022, the Company revised its reportable operating segments to align with its current business structure and how the Company's new Chief Operating Decision Maker ("CODM") reviews operations and makes decisions. The revision of the reportable operating segments did not change the Company's previously reported consolidated revenue, net income or earnings per share. See Note 27 for more information on the Company's 2022 segment information.

The Company has three reportable operating segments: Toys, Entertainment and Digital Games.

(C) Future changes in accounting standards

The Canadian Securities Administrators have issued a proposed National Instrument 51-107 *Disclosure of Climate-related Matters* which details the additional reporting requirements for reporting issuers in Canada with the proposed effective date for periods ending December 31, 2023. Emissions, carbon and other regulations impacting climate and climate related matters are constantly evolving. With respect to environmental, social and governance ("ESG") and climate reporting, the International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the goal to develop sustainability disclosure standards that are globally consistent, comparable and reliable. The Company continues to monitor progress on these reporting requirements and assess their impact on the Company's financial statements.

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

3. Revenue

The Company earns revenue from the following primary sources: Toy, Entertainment and Digital Games revenue.

(US\$ millions)	Q3 2022	Q3 2021	Nine Months Ended Sep 30,	
			2022	2021
Toy revenue	552.4	607.8	1,340.9	1,189.8
Entertainment revenue	37.0	52.9	87.6	107.3
Digital Games revenue	34.6	53.8	126.0	124.8
Revenue	624.0	714.5	1,554.5	1,421.9

Historically, Toy revenue is concentrated in the third and fourth quarters of a fiscal year as compared to the first and second quarters.

4. Other expense, net

(US\$ millions)	Notes	Q3 2022	Q3 2021	Nine Months Ended Sep 30,	
				2022	2021
Acquisition related deferred incentive compensation	25	2.8	2.7	8.1	4.2
Acquisition related contingent consideration recovery	18	(0.5)	—	(0.5)	(0.7)
Impairment of non-current assets	14	1.0	—	1.0	1.4
Loss on Minority interest and other investments	11	—	—	0.5	—
Investment distribution income	26	—	(0.2)	(0.1)	(0.6)
Net unrealized gain on investment	26	—	—	(0.1)	(1.2)
Legal settlement		—	—	(2.1)	—
Other		0.8	(0.3)	(2.6)	(1.4)
Other expense, net		4.1	2.2	4.2	1.7

Acquisition related deferred incentive compensation includes amounts related to the acquisition of certain assets of SolidRoots LLC and Nørdlight Games AB, both in August 2022, the acquisition of Originator Inc. in June 2021, and to the acquisition of certain assets from a product invention and development company in April 2021. These amounts are contingent on the continued employment of key principals as well as certain performance metrics, over their respective requisite service periods (see Note 25).

5. Finance costs

(US\$ millions)	Q3 2022	Q3 2021	Nine Months Ended Sep 30,	
			2022	2021
Bank fees	2.5	0.9	5.4	3.1
Accretion expense	1.3	1.6	4.1	4.4
Amortization of Facility fee costs	0.1	0.1	0.3	0.3
Interest income	(3.5)	(0.3)	(5.2)	(0.7)
Finance costs	0.4	2.3	4.6	7.1

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

6. Expenses

Expenses include selling, general and administrative expenses and depreciation and amortization.

Selling, general and administrative expenses

(US\$ millions)	Q3 2022	Q3 2021	Nine Months Ended Sep 30,	
			2022	2021
Administrative	83.9	80.0	262.6	226.5
Selling	45.5	47.4	110.4	92.5
Marketing	39.8	34.2	101.8	87.7
Distribution	17.3	17.9	47.8	48.4
Product development	8.8	7.6	21.7	20.0
Selling, general and administrative	195.3	187.1	544.3	475.1

Administrative expenses include the following:

(US\$ millions)	Q3 2022	Q3 2021	Nine Months Ended Sep 30,	
			2022	2021
Employee compensation and benefits	60.5	61.1	190.5	164.7
Professional services, recruiting and training	10.7	8.3	31.8	28.7
Property, operations and technology	10.9	8.1	31.2	22.9
Other	1.8	2.5	9.1	10.2
Administrative expenses	83.9	80.0	262.6	226.5

Employee compensation and benefits

(US\$ millions)	Q3 2022	Q3 2021	Nine Months Ended Sep 30,	
			2022	2021
Salaries, wages and bonuses	0.6	1.4	2.4	4.1
Employee benefits	0.2	0.2	0.7	0.8
Employee compensation and benefits expenses in cost of sales	0.8	1.6	3.1	4.9
Salaries, wages and bonuses	48.0	49.9	148.9	133.0
Employee benefits	7.5	6.7	24.5	19.3
Share-based compensation	4.3	4.1	12.9	11.3
Restructuring expense	0.7	0.4	4.2	1.1
Employee compensation and benefits in administrative expenses	60.5	61.1	190.5	164.7
Employee compensation and benefits	61.3	62.7	193.6	169.6

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

6. Expenses (continued)

Depreciation and amortization

(US\$ millions)	Q3 2022	Q3 2021	Nine Months Ended Sep 30,	
			2022	2021
Property, plant and equipment				
Moulds, dies and tools, included in cost of sales	5.1	5.8	15.5	17.3
Equipment, included in cost of sales	—	0.1	0.1	0.3
Equipment	0.3	0.6	1.3	2.3
Building and leasehold improvements	1.4	1.5	4.1	4.7
Computer hardware	0.2	0.2	0.6	1.0
	7.0	8.2	21.6	25.6
Intangible assets				
Entertainment content development, included in cost of sales	2.5	26.7	9.7	41.5
Trademarks, licenses, IP & customer lists - definite	1.3	1.2	4.0	4.6
Digital Games app development, included in cost of sales	1.1	1.1	3.2	4.2
Computer software	0.8	1.0	2.6	2.8
	5.7	30.0	19.5	53.1
Right-of-use assets	3.1	3.5	9.2	10.2
Depreciation and amortization	15.8	41.7	50.3	88.9

(US\$ millions)	Q3 2022	Q3 2021	Nine Months Ended Sep 30,	
			2022	2021
Included in cost of sales	8.7	33.7	28.5	63.3
Included in expenses	7.1	8.0	21.8	25.6
Depreciation and amortization	15.8	41.7	50.3	88.9

During the three and nine months ended September 30, 2021, the Company delivered *PAW Patrol: The Movie*, and accordingly, amortized Entertainment content development costs in the amount of \$23.0 million.

7. Foreign exchange

(US\$ millions)	Q3 2022	Q3 2021	Nine Months Ended Sep 30,	
			2022	2021
Unrealized foreign exchange (gain) loss	(45.8)	(9.9)	(57.7)	0.3
Realized foreign exchange loss (gain)	2.3	(0.9)	(8.5)	(2.5)
Foreign exchange gain	(43.5)	(10.8)	(66.2)	(2.2)

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.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

8. Income tax

The income tax expense recognized in the Condensed consolidated interim statements of earnings and comprehensive income comprise of the following:

(US\$ millions)	Nine Months Ended Sep 30,			
	Q3 2022	Q3 2021	2022	2021
Current income tax expense	40.9	39.6	78.8	51.2
Deferred income tax expense	4.7	2.2	8.8	2.7
Income tax expense	45.6	41.8	87.6	53.9

The income tax expense is calculated as follows:

(US\$ millions)	Nine Months Ended Sep 30,			
	2022		2021	
Income before income tax expense	362.7		226.0	
Income tax expense at Canadian statutory tax rate of 26.5% (2021 - 26.5%)	96.1	26.5 %	59.9	26.5 %
Effect of:				
Different tax rates of subsidiaries operating in other jurisdictions	(10.3)	(2.8)%	(5.7)	(2.5)%
Unused tax losses and tax attributes not recognized as deferred tax assets	0.5	0.1 %	—	— %
Income not taxable in determining taxable income	(0.4)	(0.1)%	(1.4)	(0.6)%
Other	1.7	0.5 %	1.1	0.5 %
Income tax expense	87.6	24.2 %	53.9	23.9 %

The tax rates used for the reconciliations above are the Canadian statutory tax rates of the parent, payable by corporate entities in the Company, 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,	Dec 31,
	2022	2021
Trade receivables	429.9	493.1
Provisions for sales allowances	(174.1)	(164.5)
Allowance for doubtful accounts	(0.7)	(0.7)
Trade receivables	255.1	327.9

Trade receivables disclosed above include amounts that are past due as at the end of the reporting period.

Other receivables

(US\$ millions)	Sep 30,	Dec 31,
	2022	2021
Other receivables		
Royalty receivables	29.4	24.0
Investment tax credits receivable	30.8	27.3
Unrealized foreign exchange gain	13.4	3.4
Other	12.1	12.0
Other receivables	85.7	66.7

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

10. Inventories

(US\$ millions)	Sep 30, 2022	Dec 31, 2021
Raw materials	8.3	6.8
Finished goods	170.2	130.6
Inventories	178.5	137.4

Inventories recorded as at September 30, 2022 are net of \$10.8 million that was recorded for the write-down of inventories to net realizable value (December 31, 2021 - \$6.6 million).

The cost of inventories recognized as an expense in cost of sales during the three and nine months ended September 30, 2022 was \$251.2 million (2021 - \$295.9 million) and \$607.2 million (2021 - \$579.6 million), respectively.

11. Prepaid expenses and other assets

(US\$ millions)	Notes	Sep 30, 2022	Dec 31, 2021
Prepaid expenses		12.4	9.0
Advances on royalties		7.8	7.1
Prepaid expenses and other assets		20.2	16.1

(US\$ millions)	Notes	Sep 30, 2022	Dec 31, 2021
Advances on royalties		3.0	4.1
Investment in a limited partnership	26	3.9	3.9
Investment tax credits - non-current portion		3.1	2.7
Minority interest and other investments		5.3	2.4
Other		1.6	1.6
Other assets, non-current		16.9	14.7

Minority interest and other investments

In the first quarter of 2022, the Company acquired a minority interest in two privately-held entities for \$0.5 million each, both of which are held for medium to long term strategic purposes and are both classified as fair value through profit or loss ("FVTPL"). In the second quarter of 2022, the Company entered into a \$3.0 million investment in a privately-held entity for medium to long term strategic purposes and classified the investment as FVTPL.

Minority interest and other investments classified as fair value through other comprehensive income ("FVTOCI") comprise of equity instruments that the Company has irrevocably elected to recognize in this category. These are strategic investments and the Company considers this classification to be more relevant.

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

11. Prepaid expenses and other assets (*continued*)

In the third quarter of 2022, the Company acquired the remaining ownership interest and control of a Minority interest investment classified as FVTOCI. As part of the step acquisition to 100% ownership of the entity, the existing investment was deemed to be disposed and reacquired at fair value of \$0.7 million (see Note 25).

The carrying value of the four Minority interest and other investments held as at September 30, 2022 (December 31, 2021 - two investments) were as follows:

(US\$ millions)	Initial investment	Carrying value at,	
		Sep 30, 2022	Dec 31, 2021
Minority interest and other investments classified as FVTOCI	0.6	—	0.6
Minority interest and other investments classified as FVTPL	5.8	5.3	1.8
Minority interest and other investments	6.4	5.3	2.4

For the three and nine months ended September 30, 2022 and 2021, there were losses of \$nil and \$0.5 million, respectively (2021 - \$nil) recognized for Minority interest and other investments classified as FVTPL in the Condensed consolidated interim statements of earnings and comprehensive income within Other expense, net.

For the three and nine months ended September 30, 2022 and 2021, there were gains of \$nil and \$0.1 million, respectively (2021 - \$nil) recognized for Minority interest and other investments classified as FVTOCI in the Condensed consolidated interim statements of earnings and comprehensive income within Other comprehensive loss.

12. Assets held for sale

On February 7, 2022, the Company divested manufacturing assets located in Tarboro, North Carolina and certain related brands associated with its Outdoor business for proceeds of \$9.2 million. Upon closing of the sale, a loss on disposal of \$0.1 million was recognized in Other expense, net in the Condensed consolidated interim statements of earnings and comprehensive income.

As at December 31, 2021, these assets, which included inventories of \$5.7 million, property, plant and equipment of \$2.1 million and goodwill of \$1.1 million were classified as "Assets held for sale" and were presented separately in the Consolidated statements of financial position.

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

13. Property, plant and equipment

(US\$ millions)	Note	Moulds, dies and tools	Equipment	Land, building and leasehold improvements	Computer hardware	Total
Cost						
Balance at December 31, 2020		152.5	31.2	40.1	15.0	238.8
Additions		22.8	2.0	0.3	1.3	26.4
Disposals		(4.3)	(0.2)	(0.4)	(0.7)	(5.6)
Assets acquired through business combinations		0.1	0.3	—	—	0.4
Foreign currency translation		2.6	(0.6)	(0.2)	(1.0)	0.8
Transfer to intangible assets		—	—	—	(2.2)	(2.2)
Assets reclassified as held for sale	12	(1.1)	(4.6)	(0.2)	—	(5.9)
Balance at December 31, 2021		172.6	28.1	39.6	12.4	252.7
Additions		17.5	2.4	2.2	0.8	22.9
Disposals		(4.0)	(0.3)	(0.5)	(0.4)	(5.2)
Asset impairments		(1.7)	—	—	—	(1.7)
Foreign currency translation		(15.1)	(1.8)	(2.5)	(0.7)	(20.1)
Balance at September 30, 2022		169.3	28.4	38.8	12.1	248.6
Accumulated depreciation						
Balance at December 31, 2020		(130.6)	(21.5)	(21.8)	(11.5)	(185.4)
Depreciation		(24.5)	(3.3)	(6.2)	(1.2)	(35.2)
Disposals		4.3	0.2	0.4	0.7	5.6
Foreign currency translation		(1.6)	(0.4)	0.1	0.2	(1.7)
Assets reclassified as held for sale	12	1.0	2.7	0.1	—	3.8
Balance at December 31, 2021		(151.4)	(22.3)	(27.4)	(11.8)	(212.9)
Depreciation		(15.5)	(1.4)	(4.1)	(0.6)	(21.6)
Disposals		3.1	0.3	0.4	0.4	4.2
Asset Impairments		0.7	—	—	—	0.7
Foreign currency translation		13.3	1.3	1.7	0.6	16.9
Balance at September 30, 2022		(149.8)	(22.1)	(29.4)	(11.4)	(212.7)
Net carrying amount						
Balance at December 31, 2021		21.2	5.8	12.2	0.6	39.8
Balance at September 30, 2022		19.5	6.3	9.4	0.7	35.9

At September 30, 2022, the Company assessed tangible assets for any indication of impairment and noted no indicators with the exception of those related to certain tooling assets. Impairments are recorded when the carrying amount of the asset exceeds its recoverable amount. For the three and nine months ended September 30, 2022, the Company recorded impairments of \$1.0 million (2021 - \$nil) related to tooling in the Condensed consolidated interim statements of earnings and comprehensive income.

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

14. Intangible assets

(US\$ millions)	Note	Brands - indefinite	Trademarks, licenses, IP & customer lists - definite	Entertainment content development	Digital game and app development	Computer software	Total
Cost							
Balance at December 31, 2020		117.5	54.8	211.1	13.1	32.7	429.2
Additions		—	1.0	43.9	5.6	1.8	52.3
Asset impairments		—	—	(2.1)	(0.5)	—	(2.6)
Assets acquired through business combinations	25	39.7	0.8	—	6.7	—	47.2
Foreign currency translation		0.1	(0.2)	0.1	0.5	0.1	0.6
Transfer to intangible assets		—	—	—	2.2	—	2.2
Balance at December 31, 2021		157.3	56.4	253.0	27.6	34.6	528.9
Additions		—	0.5	42.8	6.1	3.8	53.2
Disposals		—	—	—	—	(0.1)	(0.1)
Assets acquired through business combinations	25	4.4	—	—	—	—	4.4
Foreign currency translation		(2.4)	(1.2)	(19.6)	(2.9)	(3.1)	(29.2)
Balance at September 30, 2022		159.3	55.7	276.2	30.8	35.2	557.2
Accumulated amortization							
Balance at December 31, 2020		—	(26.2)	(176.4)	(9.2)	(25.4)	(237.2)
Amortization		—	(6.1)	(47.7)	(5.8)	(3.9)	(63.5)
Foreign currency translation		—	0.2	(1.5)	0.2	0.1	(1.0)
Balance at December 31, 2021		—	(32.1)	(225.6)	(14.8)	(29.2)	(301.7)
Amortization		—	(4.0)	(9.7)	(3.2)	(2.6)	(19.5)
Foreign currency translation		—	0.6	16.5	1.8	2.7	21.6
Balance at September 30, 2022		—	(35.5)	(218.8)	(16.2)	(29.1)	(299.6)
Net carrying amount							
Balance at December 31, 2021		157.3	24.3	27.4	12.8	5.4	227.2
Balance at September 30, 2022		159.3	20.2	57.4	14.6	6.1	257.6

The Company's Entertainment content development and Digital Games app development assets are comprised primarily of internally generated intangible assets.

As at September 30, 2022, the weighted-average remaining useful lives of definite life intangible assets based on their net carrying amount was one to five years.

At September 30, 2022, the Company assessed intangible assets for any indication of impairment. Impairments are recorded when the carrying amount of the asset exceeds its recoverable amount. The Company recorded impairment of \$nil for the three and nine months ended September 30, 2022 (2021 - \$nil and \$1.4 million, respectively) related to content development projects in the Condensed consolidated interim statements of earnings and comprehensive income.

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

15. Trade payables and accrued liabilities

(US\$ millions)	Sep 30, 2022	Dec 31, 2021
Trade payables	187.1	274.7
Accrued liabilities	193.3	201.7
Trade payables and accrued liabilities	380.4	476.4

Accrued liabilities are comprised of payroll related liabilities, accrued royalties, commodity tax, dividends payable and other balances. As at September 30, 2022, \$4.6 million of dividends payable were recorded within accrued liabilities (December 31, 2021 - \$nil) (see Note 19 (a)).

16. Deferred revenue

Deferred revenue is comprised of advances on contracts relating to Entertainment revenue and subscriptions relating to Digital Games revenue. These amounts represent consideration received in advance of the Company fulfilling its performance obligations. As at September 30, 2022, the Company had deferred revenue of \$10.5 million (December 31, 2021 - \$10.9 million).

The Company recognized revenue during the three and nine months ended September 30, 2022 of \$4.7 million (2021 - \$21.3 million) and \$8.0 million (2021 - \$24.1 million), respectively, relating to amounts previously deferred. There was no revenue recognized that related to performance obligations from a prior year.

17. Loans and borrowings

Unsecured Debt

Bank Facilities

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 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 \$1.7 million, which include Facility amendment fees and related legal fees, are recognized in Other assets and are being amortized over the term of the amended and restated agreement.

As at September 30, 2022, there were \$0.4 million (December 31, 2021 - \$0.4 million) in letters of credit utilized under the Facility and \$nil drawn (December 31, 2021 - \$nil) under this Facility. As at September 30, 2022, Unamortized Facility fee costs were \$1.3 million (December 31, 2021 - \$1.6 million) recognized in the Condensed consolidated interim statements of financial position.

This Facility is subject to the maintenance of certain financial covenants. The Company was in compliance with all financial covenants as at September 30, 2022 and December 31, 2021.

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

18. Provisions and contingent liabilities

(US\$ millions)	Sep 30, 2022	Dec 31, 2021
Contingent consideration, acquisitions ⁽ⁱ⁾	26.2	23.3
Defectives ⁽ⁱⁱ⁾	13.0	9.9
Supplier liabilities ⁽ⁱⁱⁱ⁾	5.1	5.9
Provisions and contingent liabilities	44.3	39.1
Current	27.4	25.1
Non-current	16.9	14.0
Provisions and contingent liabilities	44.3	39.1

	Contingent consideration, acquisitions ⁽ⁱ⁾	Defectives ⁽ⁱⁱ⁾	Supplier liabilities ⁽ⁱⁱⁱ⁾	Total
December 31, 2020	15.8	13.0	5.6	34.4
Provisions recognized	10.6	7.9	1.9	20.4
Accretion recognized	1.6	—	—	1.6
Payments	(7.4)	(11.0)	(1.6)	(20.0)
Revaluation of provisions	2.7	—	—	2.7
December 31, 2021	23.3	9.9	5.9	39.1
Provisions recognized	9.7	8.8	1.3	19.8
Accretion recognized	0.9	—	—	0.9
Payments	(6.2)	(5.5)	(2.1)	(13.8)
Revaluation of provisions	(1.5)	(0.2)	—	(1.7)
September 30, 2022	26.2	13.0	5.1	44.3

- (i) Certain business combinations include agreement terms associated with royalty payables or deferred incentive compensation and are based on the achievement of certain financial performance criteria and/or continued employment. The accretion of the royalties is recorded in Finance costs in the Condensed consolidated interim statements of earnings and comprehensive income. Accrued deferred incentive compensation is recorded in Other expense, net in the Condensed consolidated interim statements of earnings and comprehensive income. Subsequent reviews of financial performance may result in the recording of additional considerations or reductions of the existing provision and are recorded in Other expense, net in the Condensed consolidated interim statements of earnings and comprehensive income.
- (ii) 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 revenue figure in the Condensed consolidated interim statements of earnings and comprehensive income.
- (iii) Supplier liabilities represent the estimated amounts 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 may 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 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.

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

19. Share capital

(a) Authorized as at September 30, 2022 and December 31, 2021

- Unlimited number of multiple voting shares with no par value;
- Unlimited number of subordinate voting shares with no par value; and
- Unlimited number of preferred shares issuable in series with no par value.

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, 2022		Year Ended Dec 31, 2021	
	Shares (millions)	Amount (US\$ millions)	Shares (millions)	Amount (US\$ millions)
<u>Multiple voting shares:</u>				
Outstanding, beginning and end of period	70.6	360.5	70.6	360.5
<u>Subordinate voting shares:</u>				
Outstanding, beginning of period	31.8	376.4	31.4	364.3
Issuance of subordinate voting shares	0.5	17.8	0.4	12.1
Outstanding, end of period	32.3	394.2	31.8	376.4
Shares issued and outstanding, end of period	102.9	754.7	102.4	736.9

As at September 30, 2022, the Company does not hold any of its outstanding shares (December 31, 2021 - \$nil).

As at September 30, 2022, the Company had dividends declared and payable of \$4.6 million at a rate of C\$0.06 per outstanding subordinate voting share and multiple voting share of Spin Master. The dividend was paid on October 14, 2022 to shareholders of record at the close of business on September 30, 2022.

On November 2, 2022, the Company's Board of Directors declared a dividend of C\$0.06 per outstanding subordinate voting share and multiple voting share, payable on January 13, 2023 to shareholders of record at the close of business on December 30, 2022.

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

19. Share capital (*continued*)

(b) Share-based plans

The total expense recognized for employee services received during the three and nine months ended for September 30, 2022 equity-settled transactions is shown in the following table:

(US\$ millions)	Nine Months Ended Sep 30,			
	Q3 2022	Q3 2021	2022	2021
Equity-settled RSUs and PSUs	4.3	4.1	12.8	11.0
Equity-settled Participation Arrangement transactions	—	—	—	0.1
Share purchase options	—	—	0.1	0.2
Share based compensation expense	4.3	4.1	12.9	11.3

Share based compensation expense is recorded in administrative expenses in the Condensed consolidated interim statements of earnings and comprehensive income with a corresponding amount recorded in contributed surplus.

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. As at September 30, 2022, the aggregate number of subordinate voting shares that may be issued pursuant to grants under the LTIP may not exceed 9,669,599 (December 31, 2021 - 9,669,599).

The Company settled vested LTIP grants during the nine months ended September 30, 2022 through the issuance of shares. The settlements resulted in a transfer of \$17.6 million (2021 - \$8.3 million) from contributed surplus to share capital.

Restricted Stock Units ("RSUs")

Below is a summary of the activity related to RSUs outstanding as at September 30, 2022 and December 31, 2021.

(number of units)	Sep 30, 2022	Dec 31, 2021
Outstanding, beginning of period	942,931	826,116
Granted	374,041	388,693
Exercised	(206,145)	(252,763)
Forfeited	(57,868)	(19,115)
Outstanding, end of period	1,052,959	942,931

Performance Share Units ("PSUs")

Below is a summary of the activity related to PSUs outstanding as at September 30, 2022 and December 31, 2021.

(number of units)	Sep 30, 2022	Dec 31, 2021
Outstanding, beginning of period	1,091,862	918,929
Granted	265,732	285,463
Exercised	(316,220)	(62,815)
Forfeited	(43,761)	(49,715)
Outstanding, end of period	997,613	1,091,862

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

19. Share capital (*continued*)

Deferred Share Units ("DSUs")

Below is a summary of the activity related to DSUs outstanding as at September 30, 2022 and December 31, 2021.

	Sep 30, 2022	Dec 31, 2021
(number of units)		
Outstanding, beginning of period	157,293	121,771
Granted	37,637	35,522
Exercised	(24,908)	—
Outstanding, end of period	170,022	157,293

Share based compensation expense of \$0.4 million (2021 - \$0.4 million) and \$1.2 million (2021 - \$0.9 million) was recorded for the three and nine months ended September 30, 2022, respectively.

A mark to market gain of less than \$0.1 million (2021 - gain of \$0.8 million) and \$0.6 million (2021 - loss of \$1.2 million) is recorded for the three and nine months ended September 30, 2022, respectively.

The share based compensation and mark to market gain related to DSUs are reflected in administrative expenses in the Condensed consolidated interim statements of earnings and comprehensive income. 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 a four-year vesting period.

The Company did not issue any Options in 2022 and 2021. As at September 30, 2022, 483,426 (December 31, 2021 - 497,733) Options were outstanding with a weighted average exercise price of C\$34.97 (December 31, 2021 - C\$35.22).

20. Earnings per share

(Number of shares in millions)	Q3 2022		Q3 2021	
	Weighted average number of shares	Per share amount (US\$)	Weighted average number of shares	Per share amount (US\$)
Basic	102.9	1.37	102.3	1.32
Diluted	106.3	1.33	105.2	1.29

(Number of shares in millions)	Nine Months Ended Sep 30,			
	2022		2021	
	Weighted average number of shares	Per share amount (US\$)	Weighted average number of shares	Per share amount (US\$)
Basic	102.9	2.67	102.3	1.68
Diluted	106.3	2.59	105.2	1.64

The Participation Arrangements issued to employees upon the Initial Public Offering are anti-dilutive as subordinate voting shares resulted in the issuance of fewer multiple voting shares to the principal shareholders. Accordingly, they are not included in the computation of diluted earnings per share.

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

21. Net changes in non-cash working capital

(US\$ millions)	Nine Months Ended Sep 30,	
	2022	2021
Decrease (increase) in:		
Trade receivables	80.0	(152.1)
Other receivables	(17.4)	(3.5)
Inventories	(28.2)	(77.3)
Prepaid expenses and other assets	(11.6)	(2.7)
	22.8	(235.6)
(Decrease) increase in:		
Trade payables and accrued liabilities	(83.5)	144.7
Deferred revenue	(0.4)	(17.7)
Provisions and contingent liabilities	(4.7)	(8.8)
	(88.6)	118.2
Net changes in non-cash working capital	(65.8)	(117.4)

22. Related party transactions

In the normal course of operations, the Company engaged the services of a law firm whose managing partner is also a member of the Company's Board of Directors, which have been made on terms equivalent to those that prevail in arm's length transactions.

For the three and nine months ended September 30, 2022, related party transactions were included in administrative expenses in the Condensed consolidated interim statements of earnings and comprehensive income of the Company in the amount of \$0.3 million (2021 - \$0.4 million) and \$0.8 million (2021 - \$1.0 million), respectively. As at September 30, 2022, amounts payable to the director's law firm were \$0.2 million (December 31, 2021 - \$0.2 million).

23. Leases

Amounts recognized in the Condensed consolidated interim statements 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 classes of assets for leases of office buildings and distribution centres as "Building" and IT equipment and vehicles are as "Equipment". The weighted average lease term is 11 years (2021 - 11 years). The carrying value of right-of-use assets and depreciation by class of underlying assets are as follows:

(US\$ millions)	Building	Equipment	Right-of-use assets
January 1, 2021	65.0	2.0	67.0
Additions	0.5	0.5	1.0
Assets recognized upon acquisition (Note 25)	0.6	—	0.6
Modifications	10.9	—	10.9
Depreciation and amortization	(12.1)	(1.1)	(13.2)
Foreign currency translation	(1.0)	(0.1)	(1.1)
December 31, 2021	63.9	1.3	65.2

(US\$ millions)	Building	Equipment	Right-of-use assets
Additions	10.6	0.1	10.7
Modifications	0.4	0.1	0.5
Depreciation and amortization	(8.7)	(0.5)	(9.2)
Foreign currency translation	(3.8)	(0.4)	(4.2)
September 30, 2022	62.4	0.6	63.0

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

23. Leases (continued)

(US\$ millions)	Lease liabilities
January 1, 2021	74.4
Additions	1.0
Liabilities recognized upon acquisition (Note 25)	0.7
Modifications	10.9
Accretion	4.4
Lease payments	(17.6)
Foreign currency translation	(0.8)
December 31, 2021	73.0

(US\$ millions)	Lease liabilities
Additions	10.7
Modifications	0.5
Accretion	3.2
Lease payments	(11.9)
Foreign currency translation	(4.5)
September 30, 2022	71.0

(US\$ millions)	Sep 30, 2022	Dec 31, 2021
Lease liabilities, current	13.1	13.3
Lease liabilities, non-current	57.9	59.7
Total lease liabilities	71.0	73.0

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. Extension and termination options are exercisable only by the Company and not by the respective lessor.

24. Commitments for expenditures

As at September 30, 2022, the Company had minimum guarantees due to licensors of \$56.8 million (December 31, 2021 - \$31.1 million).

25. Business acquisitions

Acquisition of certain assets from SolidRoots, LLC

On August 2, 2022, the Company acquired certain assets from SolidRoots, LLC ("SolidRoots"), a creator of family board games. Management performed an analysis under IFRS 3, *Business Combinations* ("IFRS 3") and has determined that the assets and processes acquired comprised a business and therefore, accounted for the transaction as a business combination using the acquisition method of accounting. This acquisition is expected to complement the Company's existing board games offering and has been reported in the Toys segment within the Activities, Games & Puzzles and Plush product category and included in the Games and Puzzles cash-generating unit ("CGU") beginning from the date of acquisition.

The preliminary estimate of purchase consideration of \$10.8 million is comprised of \$8.6 million of cash consideration and \$2.2 million of contingent consideration related to the estimated fair value of future royalties. The purchase agreement also included total deferred incentive compensation of \$1.0 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 a remuneration expense and are accrued over the related service period. Deferred incentive compensation of less than \$0.1 million is included in Other expense, net in the Condensed consolidated interim statements of earnings and comprehensive income for the three and nine months ended September 30, 2022. The contingent consideration and deferred incentive compensation are recorded in provisions and contingent liabilities in the Condensed consolidated interim statements of financial position.

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

25. Business acquisitions (*continued*)

The total purchase consideration of \$10.8 million has been allocated as follows: \$4.4 million to intangible assets (related to the brand), \$2.0 million to inventories and \$0.1 million to other assets, with the remainder of \$4.3 million allocated to goodwill. Given the timing of the transaction and measurement uncertainty with final purchase agreement consideration adjustments, the purchase price allocation is not yet final.

The Company incurred \$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, 2022.

Assets acquired and liabilities recognized at the date of acquisition

(US\$ millions)	Fair value as at August 2, 2022
Assets acquired	
Intangible assets	4.4
Inventories	2.0
Prepaid expenses and other assets	0.1
Fair value of identifiable net assets acquired	6.5

Goodwill arising on acquisition

Cash consideration	8.1
Purchase price adjustment	0.5
Present value of contingent consideration	2.2
Total purchase consideration	10.8
Fair value of identifiable net assets acquired	6.5
Goodwill arising from transaction	4.3

Net cash outflow on acquisition

Cash consideration	8.1
Net cash outflow on acquisition	8.1

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, \$4.3 million of goodwill is expected to be deductible for income tax purposes and is being amortized for tax purposes over 15 years.

The total purchase consideration includes \$2.2 million in deferred payments for future royalties. The future royalties are payable to the vendor upon the achievement of key performance indicators over a five-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 \$3.1 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, 2022 is \$0.5 million in revenue attributable to the acquisition.

25. Business acquisitions (*continued*)

Acquisition of the remaining shares of Nørdlight Games AB

On August 8, 2022, the Company acquired the remaining 81.47% of the shares of Nørdlight Games AB ("Nørdlight"), resulting in ownership and control of 100% of the voting shares in Nørdlight. On August 24, 2021, the Company acquired 18.53% of the shares in Nørdlight, a company that creates and develops digital games, based in Sweden. This investment was classified prior to this transaction as an equity instrument measured at FVTOCI. Management performed an analysis under IFRS 3 and determined that the assets and processes acquired comprised a business and therefore, accounted for the transaction as a business combination using the acquisition method of accounting. The acquisition has been reported under the Digital Games segment and CGU beginning from the date of acquisition.

The Company paid cash consideration of \$2.5 million. The total purchase consideration has been allocated to the identifiable assets of \$0.5 million, and liabilities of \$0.2 million, with the remainder allocated to goodwill. Given the timing of the transaction and measurement uncertainty with final purchase agreement consideration adjustments, the purchase price allocation is not yet final.

The purchase agreement also includes contingent consideration of \$4.9 million which is payable 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 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, 2022.

Assets acquired and liabilities recognized at the date of acquisition

(US\$ millions)	Fair value as at August 8, 2022
Assets acquired	
Cash	0.4
Other receivables	0.1
	0.5
Liabilities assumed	
Trade payables and accrued liabilities	0.2
	0.2
Fair value of identifiable net assets acquired	0.3

Goodwill arising on acquisition

Cash consideration	2.5
Fair value of previously held equity interest	0.7
Total purchase consideration	3.2
Fair value of identifiable net assets acquired	0.3
Goodwill arising from transaction	2.9

Net cash outflow on acquisition

Cash consideration	2.5
Less: Cash balance acquired	0.4
Net cash outflow on acquisition	2.1

25. Business acquisitions (*continued*)

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.

The purchase agreement includes total deferred incentive compensation of \$7.8 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 related service period. Deferred incentive compensation of \$0.6 million is included in Other expense, net in the Condensed consolidated interim statements of earnings and comprehensive income for the three and nine months ended September 30, 2022. The deferred incentive compensation is recorded in provisions and contingent liabilities in the Condensed consolidated interim statements of financial position.

Prior year acquisitions

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, Business Combinations ("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 Toys segment within 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.

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 to complement the Company's toy innovation and development capabilities. The acquisition has been reported in the Toys segment and CGU 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 purchase agreement also included deferred incentive compensation 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.

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. Originator Inc. is a developer and publisher of education focused mobile apps for kids and families and was acquired to complement Sago Mini's edutainment digital games offering. The acquisition has been reported in the Digital Games segment and CGU and its revenue is included within Digital Games revenue 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 Digital Games app development), tangible assets of \$0.6 million and assumed liabilities of \$2.9 million with the remainder allocated to goodwill.

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

25. Business acquisitions (continued)

The purchase agreement also included total deferred incentive compensation 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.

Assets acquired and liabilities recognized at the date of acquisition

	Rubik's Brand Limited	Product invention and development company	Originator Inc.
(US\$ millions)	Fair value as at January 4, 2021	Fair value as at April 16, 2021	Fair value as at June 14, 2021
Assets acquired			
Cash	1.1	—	0.2
Trade receivables	4.0	—	0.4
Inventories	0.7	—	—
Prepaid expenses and other assets	0.5	—	—
Property, plant and equipment	0.2	0.1	—
Right-of-use assets	—	0.6	—
Intangible assets	38.1	—	9.1
	44.6	0.7	9.7
Liabilities assumed			
Trade payables and accrued liabilities	4.4	—	0.4
Lease liabilities	—	0.7	—
Deferred income tax liabilities	7.2	—	2.5
Income tax payable	0.4	—	—
	12.0	0.7	2.9
Fair value of identifiable net assets acquired	32.6	—	6.8

Goodwill arising on acquisition

	Rubik's Brand Limited	Product invention and development company	Originator Inc.
Cash consideration	52.6	7.5	15.0
Purchase price adjustment	(1.2)	—	—
Present value of future royalties	3.8	—	—
Total purchase consideration	55.2	7.5	15.0
Fair value of identifiable net assets acquired	32.6	—	6.8
Goodwill arising from transaction	22.6	7.5	8.2

Net cash outflow on acquisition

	Rubik's Brand Limited	Product invention and development company	Originator Inc.
Cash consideration	52.6	7.5	15.0
Less: cash balance acquired	1.1	—	0.2
Total net cash outflow	51.5	7.5	14.8
Less: advance paid in 2020	3.0	—	—
Net cash outflow on acquisition	48.5	7.5	14.8

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

26. Financial instruments and risk management

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, 2022, the Company is committed under outstanding foreign exchange contracts representing a total net sell commitment of \$6.7 million (December 31, 2021 - net purchase commitment of \$11.6 million). These foreign exchange contracts have maturity dates varying from October 2022 to January 2024. For the nine months ended September 30, 2022, realized gains on the Company's matured hedges were \$1.2 million (2021 - realized losses of \$1.2 million) and are included in the Condensed consolidated interim statements of earnings and comprehensive income.

As at September 30, 2022 (in millions)	Notional value: foreign currency	Notional value: US\$	Unrealized gain (loss): US\$
Foreign exchange contracts			
Buy US\$	80.5 EUR	(88.8)	8.9
Buy US\$	19.4 GBP	(26.1)	4.5
Buy US\$	425.0 MXN	(19.8)	(0.6)
Sell US\$	(182.2) CAD	141.4	(9.0)
Total		6.7	3.8

As at December 31, 2021 (in millions)	Notional value: foreign currency	Notional value: US\$	Unrealized (loss) gain: US\$
Foreign exchange contracts			
Buy US\$	40.4 EUR	(48.5)	2.5
Buy US\$	20.1 GBP	(28.0)	0.8
Buy US\$	515.0 MXN	(24.5)	(0.2)
Sell US\$	(109.5) CAD	87.3	(0.8)
Sell US\$	(242.0) JPY	2.1	—
Total		(11.6)	2.3

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

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

Fair value measurements

The following table presents the fair value of financial assets and financial liabilities. The carrying values of the Company's financial instruments approximate their fair values with the exception of foreign exchange forward contracts, Investment in a limited partnership and Minority interest and other investments which are recorded at fair value.

(US\$ millions)	Sep 30, 2022	Dec 31, 2021
Financial assets		
Cash and cash equivalents	674.9	562.7
Trade receivables	255.1	327.9
Other receivables	85.7	66.7
Investment in a limited partnership	3.9	3.9
Minority interest and other investments	5.3	2.4
Investment tax credits - non-current portion	3.1	2.7
Financial assets	1,028.0	966.3
Financial liabilities		
Trade payables and accrued liabilities	380.4	476.4
Financial liabilities	380.4	476.4

The fair value of foreign exchange forward contracts at September 30, 2022 resulted in an unrealized gain of \$13.4 million, which is recorded in Other receivables (December 31, 2021 - \$3.4 million) and an unrealized loss of \$9.7 million recorded in accrued liabilities (December 31, 2021 - \$1.0 million). These fair values are categorized within Level 2 of the fair value hierarchy. The fair values of over-the-counter derivative financial instruments are based on broker or observable market rates. Those quotes are tested for reasonableness by discounting expected future cash flows using market interest and exchange rates for a similar instrument at the measurement date. 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.

The fair value of the investment in a limited partnership as at September 30, 2022 is recorded in Other assets at \$3.9 million (December 31, 2021 - \$3.9 million) with \$nil (2021 - \$nil) and \$0.1 million of net unrealized gain (2021 - \$1.2 million) recognized in Other expense, net in the Condensed consolidated interim statements of earnings and comprehensive income for the three and nine months ended September 30, 2022, respectively. For the three and nine months ended September 30, 2022 and 2021, the Company recognized \$nil (2021 - \$0.2 million) and \$0.1 million (2021 - \$0.6 million) of distribution income in Other expense, net, 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 and include assumptions regarding long-term revenue growth rates and discount rates, among others.

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

26. Financial instruments and risk management (continued)

From inception, the Company has paid \$2.9 million and is obligated to pay the remaining \$0.1 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.

The fair value of the Minority interest and other investments recorded in other assets are as follows:

(US\$ millions)	Sep 30, 2022	Dec 31, 2021
Minority interest and other investments classified as FVTOCI	—	0.6
Minority interest and other investments classified as FVTPL	5.3	1.8
Minority interest and other investments	5.3	2.4

For the three and nine months ended September 30, 2022, a fair value loss of \$nil and \$0.5 million, respectively (2021 - \$nil), was recognized for Minority interest and other investments classified as FVTPL in Other expense, net in the Condensed consolidated interim statements of earnings and comprehensive income.

For the three and nine months ended September 30, 2022, there were gains of \$nil and \$0.1 million, respectively (2021 - \$nil) recognized for Minority interest and other investments classified as FVTOCI in the Condensed consolidated interim statements of earnings and comprehensive income within Other comprehensive loss.

These investments are categorized within Level 3 of the fair value hierarchy. The fair value of these investments is estimated using various valuation techniques. The quantitative unobservable inputs used in the fair value measurement are not developed by the Company and include assumptions regarding long-term revenue growth rates and discount rates, among others.

27. Segment information

Spin Master is a global children's entertainment company with a portfolio that includes children's products, brands, and entertainment content spanning toys, games, licensed products, film and television programming and digital games.

Max Rangel was appointed Global President effective January 2021, and also Chief Executive Officer ("CEO") and CODM in April 2021. A president was appointed to each of the three creative centres who report directly to the Global President & CEO. As a result of Spin Master's reorganization, financial reporting, performance management, approval of allocations for capital and growth strategies and opportunities were aligned to this new organizational structure effective January 1, 2022.

The Company has three reportable operating segments, which are as follows:

- (i) Toys
- (ii) Entertainment
- (iii) Digital Games

The Toys segment engages in the creation, design, manufacturing, licensing, and marketing of toys, games, and products around the world. The Entertainment segment engages in the creation and production of multi-platform content, stories and characters in both original shows, short-form series and films. The Digital Games segment engages in the creation of digital games and apps which include subscription services. The Company also presents Corporate & Other which includes certain corporate costs, foreign exchange and merger and acquisition-related costs, as well as fair value gains and losses and distribution income on Minority interest and other investments.

The CODM measures total segment performance based on Adjusted EBITDA, as reported internally to management. The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 2. Reclassifications of certain prior year segment results and account balances have been made to conform to the current-year presentation. None of the segment changes impact the Company's previously reported consolidated revenue, Net Income or earnings per share.

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

27. Segment information (continued)

Segment revenue and operating results

The Company's results from operations by reportable operating segment for the three months ended September 30, 2022 and September 30, 2021 are as follows:

(US\$ millions)		Q3 2022			
	Toys	Entertainment	Digital Games	Corporate & Other	Total
Revenue	552.4	37.0	34.6	—	624.0
Operating Income	109.4	28.9	8.2	40.9	187.4
Restructuring and other related costs	(0.1)	—	0.1	—	—
Foreign exchange gain	—	—	—	(43.5)	(43.5)
Share based compensation	3.0	0.3	0.5	0.5	4.3
Impairment of property, plant and equipment	1.0	—	—	—	1.0
Acquisition related deferred incentive compensation	1.6	—	1.2	—	2.8
Acquisition related contingent consideration	0.4	—	—	(0.9)	(0.5)
Transaction costs	—	—	—	0.3	0.3
Depreciation and amortization	11.6	2.5	1.7	—	15.8
Adjusted EBITDA	126.9	31.7	11.7	(2.7)	167.6

(US\$ millions)		Q3 2022			
	Toys	Entertainment	Digital Games	Corporate & Other	Total
Capital expenditures	7.9	21.3	2.9	—	32.1

(US\$ millions)		Q3 2021			
	Toys	Entertainment	Digital Games	Corporate & Other	Total
Revenue	607.8	52.9	53.8	—	714.5
Operating Income	128.0	18.2	24.2	9.1	179.5
Restructuring and other related costs	0.4	—	—	—	0.4
Foreign exchange gain	—	—	—	(10.8)	(10.8)
Share based compensation	3.4	0.1	0.6	—	4.1
Acquisition related deferred incentive compensation	1.5	—	1.2	—	2.7
Investment distribution income	—	—	—	(0.2)	(0.2)
Transaction costs	—	—	—	0.1	0.1
Gain on disposal of asset	(0.2)	—	—	—	(0.2)
Depreciation and amortization	13.4	26.9	1.4	—	41.7
Adjusted EBITDA	146.5	45.2	27.4	(1.8)	217.3

(US\$ millions)		Q3 2021			
	Toys	Entertainment	Digital Games	Corporate & Other	Total
Capital expenditures	9.1	8.5	2.4	—	20.0

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

27. Segment information (continued)

The Company's results from operations by reportable operating segment for the nine months ended September 30, 2022 and September 30, 2021 are as follows:

Nine Months Ended Sep 30,					
(US\$ millions)	2022				
	Toys	Entertainment	Digital Games	Corporate & Other	Total
Revenue	1,340.9	87.6	126.0	—	1,554.5
Operating Income	213.4	57.6	36.4	59.9	367.3
Restructuring and other related costs	4.8	0.1	0.2	—	5.1
Foreign exchange gain	—	—	—	(66.2)	(66.2)
Share based compensation	9.1	0.9	1.6	1.3	12.9
Impairment of property, plant and equipment	1.0	—	—	—	1.0
Legal settlement	—	—	—	(2.1)	(2.1)
Acquisition related deferred incentive compensation	4.7	—	3.4	—	8.1
Net unrealized gain on investment	—	—	—	(0.1)	(0.1)
Investment distribution income	—	—	—	(0.1)	(0.1)
Loss on Minority interest and other investments	—	—	—	0.5	0.5
Acquisition related contingent consideration	0.4	—	—	(0.9)	(0.5)
Transaction costs	—	—	—	0.8	0.8
Depreciation and amortization	35.6	10.0	4.7	—	50.3
Adjusted EBITDA	269.0	68.6	46.3	(6.9)	377.0

Nine Months Ended Sep 30,					
(US\$ millions)	2022				
	Toys	Entertainment	Digital Games	Corporate & Other	Total
Capital expenditures	24.9	43.0	8.2	—	76.1

Nine Months Ended Sep 30,					
(US\$ millions)	2021				
	Toys	Entertainment	Digital Games	Corporate & Other	Total
Revenue	1,189.8	107.3	124.8	—	1,421.9
Operating Income	144.4	41.3	50.2	(2.8)	233.1
Restructuring and other related costs	1.1	—	—	—	1.1
Foreign exchange gain	—	—	—	(2.2)	(2.2)
Share based compensation	9.9	0.3	1.1	—	11.3
Impairment of intangible assets	—	0.9	0.5	—	1.4
Acquisition related deferred incentive compensation	2.8	—	1.4	—	4.2
Net unrealized gain on investment	—	—	—	(1.2)	(1.2)
Investment distribution income	—	—	—	(0.6)	(0.6)
Acquisition related contingent consideration	(0.7)	—	—	—	(0.7)
Transaction costs	—	—	—	0.7	0.7
Gain on disposal of asset	(0.2)	—	—	—	(0.2)
Depreciation and amortization	41.6	41.9	5.4	—	88.9
Adjusted EBITDA	198.9	84.4	58.6	(6.1)	335.8

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

27. Segment information (continued)

(US\$ millions)	Nine Months Ended Sep 30,				
	2021				
	Toys	Entertainment	Digital Games	Corporate & Other	Total
Capital expenditures	23.0	31.9	5.8	—	60.7

Revenue reported by segment above represents revenue generated from external customers. There were no inter-segment sales in the current year (2021 - \$nil).

Revenue from major product categories

Spin Master's Toys segment is organized into four major product categories as follows:

- (i) Preschool and Dolls & Interactive
- (ii) Activities, Games & Puzzles and Plush
- (iii) Wheels & Action
- (iv) Outdoor

In the fourth quarter of 2021, the "Preschool and Girls" product category was renamed "Preschool and Dolls & Interactive" and the "Boys" product category was renamed "Wheels & Action".

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

(US\$ millions)	Nine Months Ended Sep 30,			
	Q3 2022	Q3 2021	2022	2021
Preschool and Dolls & Interactive	284.7	311.0	665.3	557.8
Activities, Games & Puzzles and Plush	175.6	195.8	401.1	381.3
Wheels & Action	145.3	153.8	360.8	299.5
Outdoor	12.1	20.6	72.4	96.3
Toy gross product sales¹	617.7	681.2	1,499.6	1,334.9
Sales allowances	(65.3)	(73.4)	(158.7)	(145.1)
Toy revenue	552.4	607.8	1,340.9	1,189.8
Entertainment revenue	37.0	52.9	87.6	107.3
Digital Games revenue	34.6	53.8	126.0	124.8
Revenue	624.0	714.5	1,554.5	1,421.9

¹Toy gross product sales represent sales of the Company's products to customers, excluding sales allowances.

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

27. Segment information (continued)

Geographical information

Revenue by geographical area is based on the location of the customers and non-current assets are based on geographic location of the entity which holds the assets. The North American geographic area is comprised of the United States and Canada. The European geographic area is comprised of the United Kingdom, France, Italy, the Netherlands, Germany, Austria, Switzerland, Belgium, Luxembourg, Slovakia, Hungary, Romania, Czech Republic, Poland, Turkey, Russia, Greece and Spain. The Rest of World 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. Entertainment and Digital Games revenue are tracked on a global basis and are presented as such in the table below.

The Company's revenues are derived from the following geographical areas:

(US\$ millions)	Q3 2022	Q3 2021	Nine Months Ended Sep 30,	
			2022	2021
North America	350.4	412.5	929.1	835.5
Europe	180.5	192.6	380.5	343.2
Rest of World	86.8	76.1	190.0	156.2
Toy gross product sales	617.7	681.2	1,499.6	1,334.9
Sales allowances	(65.3)	(73.4)	(158.7)	(145.1)
Toy revenue	552.4	607.8	1,340.9	1,189.9
Entertainment revenue	37.0	52.9	87.6	107.3
Digital Games revenue	34.6	53.8	126.0	124.8
Revenue	624.0	714.5	1,554.5	1,421.9

Toy gross product sales for North America include amounts attributable to the United States of \$314.3 million (2021 - \$374.0 million) and \$849.3 million (2021 - \$769.1 million) and Canada of \$36.1 million (2021 - \$38.5 million) and \$79.8 million (2021 - \$66.4 million) for the three and nine months ended September 30, 2022, respectively.

Non-current assets by major geographic region are detailed as follows:

(US\$ millions)	Sep 30, 2022	Dec 31, 2021
Non-current assets		
North America	387.9	388.9
Europe	75.2	83.2
Rest of World	16.7	18.6
Non-current assets	479.8	490.7
Other	154.5	126.3
Total non-current assets	634.3	617.0

Other includes non-current assets not directly attributable to a specific geographic area.

Non-current assets for North America include assets attributable to Canada of \$156.9 million as at September 30, 2022 (December 31, 2021 - \$134.5 million).

Spin Master Corp.

Condensed consolidated interim financial statements for the three and nine months ended September 30, 2022 and September 30, 2021

27. Segment information (*continued*)

Major customers

Sales to the Company's three largest customers accounted for 49.4% (2021 - 51.1%) and 53.1% (2021 - 52.2%) of Toy gross product sales for the three and nine months ended September 30, 2022, respectively. The Toys segment sells products to each of the Company's three largest customers. Other than the top three customers, which have remained the same as compared to the comparative period, no other single customer contributed 10% or more to Toy gross product sales for the three and nine months ended September 30, 2022 (2021 - \$nil).

(US\$ millions)	Q3 2022	Q3 2021	Nine Months Ended Sep 30,	
			2022	2021
Toy gross product sales				
Customer 1	136.8	131.6	329.2	290.7
Customer 2	121.3	117.2	270.6	224.8
Customer 3	47.3	99.5	196.3	180.8
Total	305.4	348.3	796.1	696.3

28. Prior year comparatives

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