

Spin Master Corp.

Condensed consolidated interim financial statements (unaudited)

For the three and six months ended June 30, 2020 and June 30, 2019

Spin Master Corp.

Condensed consolidated interim statements of financial position

(Unaudited, in US\$ millions)	Notes	Jun 30, 2020	Dec 31, 2019
Assets			
Current assets			
Cash		410.8	115.3
Trade receivables	7	194.2	370.7
Other receivables	7	49.6	57.0
Inventories	8	154.3	185.3
Advances on royalties		14.8	18.0
Prepaid expenses		8.7	14.4
		832.4	760.7
Non-current assets			
Intangible assets	10	183.8	182.4
Goodwill	11	136.7	138.8
Right-of-use assets	18	70.3	78.3
Property, plant and equipment	9	61.1	66.8
Deferred income tax assets		90.1	26.2
Advances on royalties		1.2	3.2
		543.2	495.7
Total assets		1,375.6	1,256.4
Liabilities			
Current liabilities			
Trade payables and accrued liabilities	12	206.7	345.6
Loans and borrowings	13	299.3	—
Contract liabilities	12	14.6	7.6
Provisions and contingent liabilities	14	26.8	26.2
Income tax payable	6	15.5	4.5
Lease liabilities	18	14.8	15.1
		577.7	399.0
Non-current liabilities			
Provisions and contingent liabilities	14	8.8	9.0
Deferred income tax liabilities	6	15.4	20.4
Lease liabilities	18	61.4	67.6
		85.6	97.0
Total liabilities		663.3	496.0
Shareholders' equity			
Share capital	15	719.4	714.5
Accumulated deficit		(69.7)	(28.1)
Contributed surplus		36.2	35.8
Accumulated other comprehensive income		26.4	38.2
Total shareholders' equity		712.3	760.4
Total liabilities and shareholders' equity		1,375.6	1,256.4

Approved by the Board of Directors on August 5, 2020.

The accompanying notes on pages 5 to 22 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 Jun 30		Six Months Ended Jun 30	
		2020	2019	2020	2019
Revenue	3	281.1	321.0	508.4	560.0
Cost of sales		162.9	156.7	299.4	288.0
Gross profit		118.2	164.3	209.0	272.0
Expenses					
Selling, marketing, distribution and product development	5	59.6	71.2	140.5	132.2
Administrative expenses	5	55.2	66.4	120.9	125.8
Depreciation and amortization expenses	5	9.0	8.0	18.2	14.8
Other expenses (income)		0.4	(0.5)	(1.0)	(0.6)
Foreign exchange loss		3.5	3.6	12.0	9.9
Finance costs	4	3.3	2.6	6.1	5.4
(Loss) income before income tax expense (recovery)		(12.8)	13.0	(87.7)	(15.5)
Income tax expense (recovery)	6	2.1	2.8	(46.1)	(4.8)
Net (loss) income		(14.9)	10.2	(41.6)	(10.7)
Earnings per share					
Basic and diluted	16	(0.15)	0.10	(0.41)	(0.10)

(Unaudited, in US\$ millions, except earnings per share)	Notes	Three Months Ended Jun 30		Six Months Ended Jun 30	
		2020	2019	2020	2019
Net (loss) income		(14.9)	10.2	(41.6)	(10.7)
Items that may be subsequently reclassified to net income					
Foreign currency translation gain (loss) on foreign operations		18.0	8.0	(11.8)	19.0
Other comprehensive income (loss)		18.0	8.0	(11.8)	19.0
Total comprehensive income (loss)		3.1	18.2	(53.4)	8.3

The accompanying notes on pages 5 to 22 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	Contributed surplus	Accumulated other comprehensive income	Total
January 1, 2019		694.1	(92.4)	40.9	19.9	662.5
Net loss		—	(10.7)	—	—	(10.7)
Other comprehensive income, net of tax		—	—	—	19.0	19.0
Share-based compensation	15	—	—	8.3	—	8.3
Shares issued upon settlement of LTIP	15	10.5	—	(10.7)	—	(0.2)
June 30, 2019		704.6	(103.1)	38.5	38.9	678.9
January 1, 2020		714.5	(28.1)	35.8	38.2	760.4
Net loss		—	(41.6)	—	—	(41.6)
Other comprehensive loss		—	—	—	(11.8)	(11.8)
Cancellation of common shares	15	(1.1)	—	—	—	(1.1)
Share-based compensation	15	—	—	6.4	—	6.4
Shares released from equity participation		3.9	—	(3.9)	—	—
Shares issued upon settlement of LTIP	15	2.1	—	(2.1)	—	—
June 30, 2020		719.4	(69.7)	36.2	26.4	712.3

The accompanying notes on pages 5 to 22 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of cash flows

For the six months ended June 30
(Unaudited, in US\$ millions)

	Notes	2020	2019
Operating activities			
Net loss		(41.6)	(10.7)
Adjustments to reconcile net loss to cash provided by operating activities			
Income tax recovery	6	(46.1)	(4.8)
Interest expense (income)	4	1.4	(0.6)
Depreciation and amortization	5	49.0	46.2
Accretion expense - lease liabilities	4	2.3	2.2
Accretion expense - other	4	0.5	0.9
Amortization of financing costs	4	0.2	0.5
Share-based compensation expense	15	6.4	8.3
Net change in non-cash working capital	17	97.1	(41.2)
Net change in provisions and contingent consideration liabilities		(0.2)	—
Income taxes paid		(19.1)	(19.4)
Income taxes received		6.6	—
Interest paid		(1.1)	(0.2)
Cash provided by (used in) operating activities		55.4	(18.8)
Investing activities			
Investment in property, plant and equipment	9	(13.9)	(22.3)
Investment in intangible assets	10	(29.1)	(21.9)
Investment in trademark license agreement	10	(2.4)	—
Proceeds from disposal of property, plant and equipment	10	—	0.5
Cash used in investing activities		(45.4)	(43.7)
Financing activities			
Proceeds from loans and borrowings	13	350.0	—
Repayment of loans and borrowings	13	(50.0)	—
Payment of lease liabilities		(7.6)	(6.4)
Cancellation of common shares	15	(1.1)	—
Cash provided by (used in) financing activities		291.3	(6.4)
Effect of foreign currency exchange rate changes on cash		(5.8)	2.5
Net increase (decrease) in cash during the period		295.5	(66.4)
Cash, beginning of period		115.3	143.5
Cash, end of period		410.8	77.1

The accompanying notes on pages 5 to 22 are an integral part of these condensed consolidated interim financial statements.

1. Description of business

Spin Master Corp., (the “Company”) was incorporated on June 9, 2004, under the laws of the Province of Ontario, Canada. The Company is a children’s entertainment company that creates, designs, manufactures and markets a diversified portfolio of innovative toys, games, products and entertainment properties. The Company is driven by a desire to challenge and expand traditional play patterns through the creation of innovative products, entertainment and digital content. The Company’s headquarters is located at 225 King Street West, Suite 200, Toronto, Canada, M5V 3M2.

The Company has three reportable operating segments: North America, Europe and Rest of World (see Note 21). The North American segment is comprised of the United States and Canada. The European segment is comprised of the United Kingdom, France, Italy, the Netherlands, Germany, Austria, Switzerland, Belgium, Luxembourg, Slovakia, Hungary, Romania, Czech Republic, Poland, Russia and Greece. The Rest of World segment is primarily comprised of Hong Kong, China, Vietnam, India, Australia and Mexico, as well as all other areas of the world serviced by the Company’s distribution network.

2. Summary of significant accounting policies

(A) Statement of compliance

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, 2019, except for the impact of the adoption of the Standards and Interpretations described below.

These condensed consolidated interim financial statements and accompanying notes were approved and authorized for issuance by the Board of Directors of the Company on August 5, 2020.

(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 consolidated financial statements, including the notes thereto, for the year ended December 31, 2019.

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic, which has resulted in governments worldwide enacting emergency measures to combat the spread of the pandemic. These measures have caused disruption to businesses globally resulting in an economic slowdown which may impact demand for the Company’s products.

The Company’s financial performance in 2020 has been impacted by the supply chain disruption in the first half of 2020 and the reduction in customer demand due to COVID-19. As a result of the dynamic nature of these circumstances, it is not possible to reliably estimate the length and severity of the pandemic and the impact on the financial results of the Company.

During the first quarter of 2020, as a precautionary measure, the Company borrowed a total of \$350.0 million under its Credit Facility, to maximize liquidity and increase available cash on hand. The Company drew on the Credit Facility due to the uncertainties caused by the COVID-19 pandemic. During the second quarter of 2020, the Company has repaid \$50.0 million on its Credit Facility. The balance of the Credit Facility matures in the third quarter of 2020.

The Company has also assessed tangible and intangible assets for any indication of impairment. The Company has determined the recoverable amount of its CGU groupings and intangible assets using discounted cash flow models corroborated by other valuation techniques and measured it against their respective carrying amounts to determine if an impairment loss exists.

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

The Company has assessed the significant accounting judgments and estimates in preparing the Company's condensed consolidated interim financial statements for the three and six months ended June 30, 2020. The Company has applied the significant accounting judgments and estimates disclosed in Note 3 of its audited consolidated financial statements for the year ended December 31, 2019.

(C) Functional and presentation currency

These condensed consolidated interim financial statements are presented in United States dollars ("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 June 30, 2020 and 2019, the functional currencies of the Company's subsidiaries included the Canadian dollar, the Euro, the Great Britain pound, 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. All financial information presented in US\$ has been rounded to the nearest hundred thousand, except as otherwise indicated.

(D) Application of new and revised IFRSs

IFRS 16 Leases

The Company has adopted the IFRS 16 amendment regarding COVID-19-Related Rent Concessions effective June 1, 2020. The amendment provides lessees with a practical expedient that relieves a lessee from assessing whether a COVID-19-related rent concession is a lease modification.

The Company, as a lessee, has elected to apply the practical expedient to all eligible contracts and has accounted for rent concessions occurring as a direct consequence of COVID-19 as if they were not lease modifications. The forgiveness of lease payments is accounted for as a variable lease payment and that part of the lease liability is derecognized. For deferrals of lease payments, interest continues to be recognized on the lease liability and the liability is reduced once payments are made to the lessor.

The Company has applied the amendment as of June 30, 2020 and has recognized an impact of \$0.1 million related to rent forgiveness and \$0.3 million related to rent deferrals in its lease liabilities.

3. Revenue

The Company earns revenue from the following primary sources:

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

(US\$ millions)	Three Months Ended Jun 30		Six Months Ended Jun 30	
	2020	2019	2020	2019
Revenue from sale of goods	252.6	290.6	458.0	500.7
Other revenue	28.5	30.4	50.4	59.3
Revenue	281.1	321.0	508.4	560.0

Sales of toys and related products are seasonal. The majority of the Company's annual sales occur in the third and fourth quarters of the fiscal year. Generally, the first and second quarters are the periods with the fewest shipments and the lowest revenues in the toy industry.

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4. Finance costs

(US\$ millions)	Three Months Ended Jun 30		Six Months Ended Jun 30	
	2020	2019	2020	2019
Bank fees	0.5	0.9	1.7	2.4
Accretion expense - lease liabilities	1.1	1.2	2.3	2.2
Accretion expense - other	0.2	0.4	0.5	0.9
Amortization of financing costs	0.1	0.2	0.2	0.5
Interest expense (income)	1.4	(0.1)	1.4	(0.6)
Finance costs	3.3	2.6	6.1	5.4

5. Expenses

Included within expenses are the following: selling, marketing, distribution and product development expenses; administrative expenses, which include employee benefit expenses, property and operations and professional fees; and depreciation and amortization expenses.

Selling, marketing, distribution and product development expenses

(US\$ millions)	Three Months Ended Jun 30		Six Months Ended Jun 30	
	2020	2019	2020	2019
Selling	20.4	22.0	37.7	37.9
Marketing	11.4	25.5	38.1	47.3
Distribution	18.8	16.3	47.3	33.2
Product development	9.0	7.4	17.4	13.8
Selling, marketing, distribution and product development expenses	59.6	71.2	140.5	132.2

Administrative expenses

(US\$ millions)	Three Months Ended Jun 30		Six Months Ended Jun 30	
	2020	2019	2020	2019
Employee compensation and benefits	38.2	47.8	81.8	90.1
Property and operations	3.5	6.5	9.8	11.9
Professional services	5.5	5.0	12.3	10.0
Technology	3.1	2.9	6.3	5.9
Recruiting and training	1.3	1.1	3.8	2.7
Restructuring	—	2.7	—	2.7
Other	3.6	0.4	6.9	2.5
Administrative expenses	55.2	66.4	120.9	125.8

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5. Expenses (continued)

Employee compensation and benefits

(US\$ millions)	Three Months Ended Jun 30		Six Months Ended Jun 30	
	2020	2019	2020	2019
Salaries, wages and bonuses	1.2	1.2	2.7	2.3
Employee benefits	0.2	0.2	0.5	0.4
Employee compensation and benefits expenses in cost of sales	1.4	1.4	3.2	2.7
Salaries, wages and bonuses	31.4	33.9	61.6	65.4
Share-based compensation	2.8	3.9	6.4	8.3
Restructuring expense	(1.0)	4.5	3.4	5.2
Employee benefits	5.0	5.5	10.4	11.2
Employee compensation and benefits in administrative expenses	38.2	47.8	81.8	90.1
Employee compensation and benefits	39.6	49.2	85.0	92.8

Depreciation and amortization expense

(US\$ millions)	Three Months Ended Jun 30		Six Months Ended Jun 30	
	2020	2019	2020	2019
Property, plant and equipment				
Moulds, dies and tools, included in cost of sales	6.1	4.9	11.7	9.9
Equipment	1.1	0.9	2.2	1.6
Land and leasehold improvements	1.5	1.4	3.1	2.7
Computer hardware	0.4	0.4	0.8	0.7
	9.1	7.6	17.8	14.9
Intangible assets				
Trademarks, licenses, IP & customer lists - definite	1.8	1.7	3.7	3.4
Content development, included in cost of sales	10.4	11.6	18.8	21.2
Computer software	1.2	0.5	2.2	1.0
	13.4	13.8	24.7	25.6
Right-of-use assets	3.2	3.4	6.5	5.7
Depreciation and amortization expense	25.7	24.8	49.0	46.2

6. Income tax

Income tax recognized in net (loss) income:

(US\$ millions)	Three Months Ended Jun 30		Six Months Ended Jun 30	
	2020	2019	2020	2019
Current tax expense (recovery)	6.1	2.6	23.8	(4.6)
Deferred tax (recovery) expense	(4.0)	0.2	(69.9)	(0.2)
Income tax expense (recovery)	2.1	2.8	(46.1)	(4.8)

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6. Income tax (continued)

The income tax recovery for the six months ended June 30, 2020 is calculated as follows:

(US\$ millions)	2020		2019	
Loss before income tax recovery	(87.7)		(15.5)	
Income tax recovery at Canadian statutory tax rate of 26.5% (2019 - 26.5%)	(23.2)	26.5 %	(4.1)	26.5 %
Effect of:				
Different tax rates of subsidiaries operating in other jurisdictions	7.6	(8.7)%	0.3	(1.9)%
Income (expenses) not taxable (deductible) in determining taxable income	4.4	(5.0)%	(0.1)	0.6 %
Recognition of previously unrecognized tax losses and other deferred tax assets	1.0	(1.1)%	—	— %
Unused tax losses and tax attributes not recognized as deferred tax assets	—	— %	(0.1)	0.3 %
Internal transfer of intangible property	(33.3)	38.0 %	—	— %
Other	(2.6)	2.9 %	(0.8)	5.5 %
Income tax recovery	(46.1)	52.6 %	(4.8)	31.0 %

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.

7. Trade and other receivables

(US\$ millions)	Jun 30, 2020	Dec 31, 2019
Trade receivables	332.4	546.2
Provisions for sales allowances	(134.1)	(174.9)
Allowance for doubtful accounts	(4.1)	(0.6)
	194.2	370.7
Other receivables		
Investment tax credits receivable	23.0	24.2
Sales tax receivables	6.9	12.0
Royalty receivables	8.4	14.2
Other	11.3	6.6
	49.6	57.0
Net trade and other receivables	243.8	427.7

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.

8. Inventories

(US\$ millions)	Jun 30, 2020	Dec 31, 2019
Raw materials	17.4	14.2
Finished goods	136.9	171.1
Inventories	154.3	185.3

The cost of inventories recognized as an expense in cost of sales for the three and six months ended June 30, 2020 was \$124.1 million (2019 - \$131.5 million) and \$221.9 million (2019 - \$240.5 million), respectively.

Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2020 and June 30, 2019

9. Property, plant and equipment

(US\$ millions)	Moulds, dies and tools	Equipment	Land and leasehold improvements	Computer hardware	Total
Cost					
December 31, 2018	114.0	24.4	33.8	11.3	183.5
Additions	24.7	7.6	5.6	3.0	40.9
Asset retirements	(8.7)	(2.3)	(1.9)	(0.2)	(13.1)
Foreign currency translation	(1.1)	—	1.6	0.1	0.6
December 31, 2019	128.9	29.7	39.1	14.2	211.9
Additions	11.6	0.6	1.4	0.3	13.9
Foreign currency translation	(1.8)	(0.4)	(1.9)	(0.4)	(4.5)
June 30, 2020	138.7	29.9	38.6	14.1	221.3
Accumulated depreciation					
December 31, 2018	(93.5)	(15.2)	(10.4)	(8.4)	(127.5)
Depreciation	(20.9)	(3.4)	(5.8)	(1.4)	(31.5)
Asset retirements	8.7	2.3	1.9	0.2	13.1
Foreign currency translation	1.4	(0.1)	(0.5)	—	0.8
December 31, 2019	(104.3)	(16.4)	(14.8)	(9.6)	(145.1)
Depreciation	(11.7)	(2.2)	(3.1)	(0.8)	(17.8)
Foreign currency translation	1.8	0.3	0.4	0.2	2.7
June 30, 2020	(114.2)	(18.3)	(17.5)	(10.2)	(160.2)
Net carrying amount					
December 31, 2019	24.6	13.3	24.3	4.6	66.8
June 30, 2020	24.5	11.6	21.1	3.9	61.1

As the COVID-19 global pandemic has caused disruption to businesses globally, the Company assessed tangible assets for any indication of impairment. For the six months ended June 30, 2020, the Company recorded no impairment losses (2019 - nil). Impairment losses are recorded where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount was based on the asset's value in use.

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Unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2020 and June 30, 2019

10. Intangible assets

(US\$ millions)	Brands - indefinite	Trademarks, licenses, intellectual properties & customer lists - definite	Content development	Computer software	Total
Cost					
December 31, 2018	113.4	45.9	113.2	19.7	292.2
Additions	—	—	48.1	5.2	53.3
Asset impairments	(5.6)	—	—	—	(5.6)
Assets recognized upon acquisition	6.5	5.5	—	—	12.0
Foreign currency translation	1.4	0.3	3.2	1.0	5.9
December 31, 2019	115.7	51.7	164.5	25.9	357.8
Additions	—	—	24.4	4.7	29.1
Assets recognized upon acquisition	—	2.4	—	—	2.4
Foreign currency translation	(1.5)	(2.3)	(5.0)	(1.2)	(10.0)
June 30, 2020	114.2	51.8	183.9	29.4	379.3
Accumulated amortization					
December 31, 2018	—	(11.9)	(97.3)	(17.2)	(126.4)
Amortization	—	(6.8)	(31.1)	(2.2)	(40.1)
Other	—	0.2	(8.3)	(0.8)	(8.9)
December 31, 2019	—	(18.5)	(136.7)	(20.2)	(175.4)
Amortization	—	(3.7)	(18.8)	(2.2)	(24.7)
Foreign currency translation	—	0.4	3.0	1.2	4.6
June 30, 2020	—	(21.8)	(152.5)	(21.2)	(195.5)
Net carrying amount					
December 31, 2019	115.7	33.2	27.8	5.7	182.4
June 30, 2020	114.2	30.0	31.4	8.2	183.8

During the three months ended June 30, 2020, the Company entered into a trademark license agreement. Included within intangible assets is an addition to trademarks of \$2.4 million.

As the COVID-19 global pandemic has caused disruption to businesses globally, the Company assessed intangible assets for any indication of impairment. The Company has determined the recoverable amount of its CGU groupings and intangible assets using discounted cash flow models corroborated by other valuation techniques and measured them against their respective carrying amounts to determine if an impairment loss exists. No impairment losses were recognized in respect of intangible assets for the six months ended June 30, 2020 (2019 - nil).

11. Goodwill

(US\$ millions)	Jun 30, 2020	Dec 31, 2019
Balance, beginning of period	138.8	124.2
Additions during the period	—	13.6
Measurement period purchase price adjustments - Orbeez	(1.0)	—
Foreign currency translation	(1.1)	1.0
Balance, end of period	136.7	138.8

As the COVID-19 global pandemic has caused disruption to businesses globally, the Company assessed intangible assets for any indication of impairment. The recoverable amount of the CGUs for goodwill have been determined on the same basis and assumptions as the indefinite lived intangible assets (see Note 10). There have been no impairment losses recognized with respect to goodwill for the three and six months ended June 30, 2020 (June 30, 2019 - nil).

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12. Trade payables and accrued liabilities

(US\$ millions)	Jun 30, 2020	Dec 31, 2019
Trade payables	124.2	215.8
Accrued liabilities	82.5	129.8
Trade payables and accrued liabilities	206.7	345.6

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

During the six months ended June 30, 2020, the Company announced changes in senior leadership. Included within accrued liabilities is a restructuring provision of \$1.5 million as at June 30, 2020 (December 31, 2019 - \$2.1 million).

Contract liabilities are comprised of advances on contracts relating to licensing and television distribution, which arise as a result of consideration received in advance of the Company fulfilling its obligations. As at June 30, 2020, the Company had contract liabilities of \$14.6 million (December 31, 2019 - \$7.6 million).

13. Loans and borrowings

(US\$ millions)	Jun 30, 2020	Dec 31, 2019
Secured debt (at amortized cost)		
Bank facilities (i)	300.0	—
	300.0	—
Less:		
Unamortized financing costs	0.7	—
Total unamortized financing costs	0.7	—
Current	299.3	—
Total loans and borrowings	299.3	—

Secured Debt

Bank Facilities

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

Available borrowing options under the Facility include:

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

13. Loans and borrowings (continued)

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

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

The Company was in compliance with all covenants as at June 30, 2020 and December 31, 2019.

As at June 30, 2020, the Company had utilized \$300.4 million (December 31, 2019 - \$0.7 million) of the Facility: \$300.0 million (December 31, 2019 - nil) drawn in LIBOR Loans and \$0.4 million (December 31, 2019 - \$0.7 million) drawn in letters of credit. The balance of the Credit Facility matures in the third quarter of 2020.

- (ii) On December 2, 2019, the Company reduced the limit on its Production Facility to \$7.3 million (\$10.0 million CAD) to better align with the Company's borrowing needs under the facility. As at June 30, 2020, the balance of the Production facility was nil.

Unsecured Debt

Bank Overdraft Facility

- (iii) On December 19, 2018, the Company entered into an uncommitted Overdraft Facility Agreement (the "European Facility") for \$16.8 million (€15.0 million). The European Facility will be used to fund working capital requirements in Europe. As at June 30, 2020, the outstanding balance was nil (December 31, 2019 - nil).

14. Provisions and contingent liabilities

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.

(US\$ millions)	Jun 30, 2020	Dec 31, 2019
Defectives (i)	13.5	13.8
Supplier liabilities (ii)	10.0	4.9
Contingent consideration, acquisitions (iii)	12.1	16.5
Provisions and contingent liabilities	35.6	35.2
Current	26.8	26.2
Non-current	8.8	9.0
Provisions and contingent liabilities	35.6	35.2

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.

14. Provisions and contingent liabilities (continued)

- (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 operations and comprehensive income.
- (iii) Certain business combinations include a royalty payable. The fair value of the total contingent consideration on June 30, 2020 was \$16.4 million (2019 - \$16.5 million) and is based on the achievement of certain financial performance criteria. The accretion of the royalty is recorded in other expenses (income) in the condensed consolidated interim statements of operations and comprehensive income.

15. Share capital

(a) Authorized as at June 30, 2020 and December 31, 2019

Unlimited number of multiple voting shares;

Unlimited number of subordinate voting shares; and

Unlimited number of preferred shares issuable in series.

	2020		2019	
	Shares (millions)	Amount (US\$ millions)	Shares (millions)	Amount (US\$ millions)
<u>Multiple voting shares:</u>				
Balance, beginning of period	70.6	360.5	70.7	360.8
Conversion to subordinate voting shares	—	—	(0.1)	(0.3)
Balance, end of period	70.6	360.5	70.6	360.5
<u>Subordinate voting shares:</u>				
Balance, beginning of period	31.6	354.0	31.1	333.3
Issuance of common shares	0.2	6.0	0.4	20.4
Cancellation of common shares	(0.1)	(1.1)	—	—
Forfeiture of common shares	(0.3)	—	—	—
Conversion from multiple voting shares	—	—	0.1	0.3
Balance, end of period	31.4	358.9	31.6	354.0
Common shares issued and outstanding, end of period	102.0	719.4	102.2	714.5

(b) Share-based plans

Participation arrangements

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

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

15. Share capital (continued)

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.

As at June 30, 2020, 465,939 (December 31, 2019 - 1,068,258) subordinate voting shares were outstanding relating to the Participation Arrangements with a weighted average grant date fair value of \$6.5 million (December 31, 2019 - \$14.9 million) based on the weighted average of the contractual life remaining of 5 months.

Share based compensation expense of \$1.3 million (2019 - \$2.0 million) relating to Participation Arrangements is recorded in administrative expenses in the condensed consolidated interim statement of earnings and comprehensive income for the six months ended June 30, 2020.

Long-Term Incentive Plan ("LTIP")

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

The Company settled vested LTIP grants during the six months ended June 30, 2020 through the issuance of shares. The settlements resulted in a transfer of \$2.1 million (2019 - 10.5 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 June 30, 2020 and December 31, 2019.

	Jun 30, 2020	Dec 31, 2019
(number of units)		
Outstanding, beginning of period	713,908	708,090
Granted	1,341,123	460,559
Exercised	(230,551)	(413,088)
Forfeited	(88,767)	(41,653)
Outstanding, end of period	1,735,713	713,908

Included in the above table are grants of 919,784 PSUs to certain key employees during the six months ended June 30, 2020 (December 31, 2019 - 453,246).

Share based compensation expense of \$4.6 million (2019 - \$5.4 million) relating to RSUs and PSUs is recorded in administrative expenses in the condensed consolidated interim statement of earnings and comprehensive income for the six months ended June 30, 2020 with corresponding entries recorded in contributed surplus.

Deferred Share Units ("DSUs")

Below is a summary of the activity related to DSUs outstanding as at June 30, 2020 and December 31, 2019.

	Jun 30, 2020	Dec 31, 2019
(number of units)		
Outstanding, beginning of year	78,311	60,393
Granted	22,786	17,918
Outstanding, end of year	101,097	78,311

15. Share capital (continued)

Share based compensation expense of \$0.3 million (2019 - \$0.3 million) with a mark to market gain of \$0.7 million (2019 - nil) relating to DSUs is recorded in administrative expenses in the condensed consolidated interim statement of earnings and comprehensive income for the six months ended June 30, 2020. A corresponding amount was recorded in accrued liabilities.

Share Purchase Options ("Options")

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

As at June 30, 2020, 545,322 (December 31, 2019 - 836,596) Options were outstanding with a weighted average exercise price of \$34.42 CAD (December 31, 2019 - \$34.60 CAD).

Share based compensation expense of \$0.5 million (2019 - \$0.9 million) relating to Options is recorded in administrative expenses in the condensed consolidated interim statement of earnings and comprehensive income for the six months ended June 30, 2020.

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

(US\$ millions)	2020	2019
Equity-settled RSUs and PSUs	4.6	5.4
Equity-settled Participation Arrangements	1.3	2.0
Share purchase options	0.5	0.9
Share based compensation expense	6.4	8.3

Share based compensation expense of \$6.4 million (2019 - \$8.3 million) is recorded in administrative expenses in the condensed consolidated interim statement of earnings and comprehensive income for the six months ended June 30, 2020. A corresponding amount was recorded in contributed surplus.

16. Earnings per share

	Three months ended Jun 30, 2020		Three months ended Jun 30, 2019	
	Weighted average number of shares	Per common share amount (\$)	Weighted average number of shares	Per common share amount (\$)
Basic	102.0	(0.15)	101.8	0.10
Diluted	104.0	(0.15)	102.7	0.10

	Six months ended Jun 30, 2020		Six months ended Jun 30, 2019	
	Weighted average number of shares	Per share amount (\$)	Weighted average number of shares	Per share amount (\$)
Basic	102.0	(0.41)	101.8	(0.10)
Diluted	104.0	(0.41)	101.8	(0.10)

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

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17. Changes in net working capital

(US\$ millions)	2020	2019
Decrease (increase) in:		
Trade receivables	190.0	21.2
Other receivables	6.4	26.7
Inventories	27.2	(34.9)
Prepaid expenses	8.4	0.6
Advances on royalties	1.2	4.6
	233.2	18.2
(Decrease) increase in:		
Trade payables and accrued liabilities	(156.1)	(65.4)
Contract liabilities	7.1	0.2
Provisions and contingent liabilities	0.6	(3.7)
Other	12.3	9.5
	(136.1)	(59.4)
Total changes in net working capital	97.1	(41.2)

18. Leases

Amounts recognized in the balance sheet

Leased buildings represented approximately 96.7% of the right-of-use assets with the remainder comprised of leases of information technology ("IT") equipment and vehicles.

	Building	Equipment	Right-of-use Assets
Transition, January 1, 2019	80.4	3.0	83.4
Additions	8.5	1.3	9.8
Disposals and modifications	(1.5)	—	(1.5)
Depreciation and amortization	(11.6)	(1.4)	(13.0)
Other	(0.4)	—	(0.4)
December 31, 2019	75.4	2.9	78.3

	Building	Equipment	Right-of-use Assets
January 1, 2020	75.4	2.9	78.3
Additions	0.2	0.2	0.4
Disposals and modifications	(1.5)	(0.1)	(1.6)
Depreciation and amortization	(5.8)	(0.7)	(6.5)
Other	(0.3)	—	(0.3)
June 30, 2020	68.0	2.3	70.3

The Company leases several assets including buildings, distribution centres, IT equipment, and vehicles. The average lease term is 11 years.

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Unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2020 and June 30, 2019

18. Leases (continued)

	Lease Liabilities
Transition, January 1, 2019	83.4
Additions	9.8
Disposals and modifications	(1.5)
Accretion	4.8
Lease payments	(13.8)
December 31, 2019	82.7
Lease Liabilities, current	15.1
Lease Liabilities, non-current	67.6

	Lease Liabilities
January 1, 2020	82.7
Additions	0.4
Disposals and modifications	(1.6)
Accretion	2.3
Lease payments	(7.6)
June 30, 2020	76.2
Lease Liabilities, current	14.8
Lease Liabilities, non-current	61.4

19. Commitments for expenditures

As at June 30, 2020, the Company had minimum guarantees due to licensors of \$39.5 million (December 31, 2019 - \$32.7 million).

20. Financial instruments and risk management

Fair value measurements

With the exception of foreign exchange forward contracts which are recorded at fair value, the carrying amounts of all other financial assets or liabilities of the Company approximate their fair values as follows:

(US\$ millions)	Jun 30, 2020	Dec 31, 2019
Financial assets		
Cash	410.8	115.3
Trade receivables	194.2	370.7
Other receivables	49.6	57.0
Financial assets	654.6	543.0
Financial liabilities		
Trade payables and accrued liabilities	206.7	345.6
Loans and borrowings	299.3	—
Provisions and contingent liabilities	35.6	35.2
Financial liabilities	541.6	380.8

The fair value of foreign exchange forward contracts generated an unrealized gain of \$0.6 million as at June 30, 2020 and is recorded in other assets (December 31, 2019 - liability of \$0.5 million). These fair values are categorized within Level 2 of the fair value hierarchy. The fair value of foreign exchange forward contracts is estimated based on forward exchange rates observable at the end of the reporting period and contract forward rates.

20. Financial instruments and risk management (continued)

Foreign currency risk

Due to the nature of the Company's international operations, it is exposed to foreign currency risk driven by fluctuations in exchange rates. Risk arises because the value of monetary assets, liabilities, revenues and expenditures arising from transactions denominated in foreign currencies may vary due to changes in exchange rates and because the non-U.S. dollar denominated financial statements of the Company's subsidiaries may vary on translation into the U.S. dollar presentation currency. These translation exposures could impact the Company's earnings and cash flows.

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

As at June 30, 2020, the Company is committed under outstanding foreign exchange contracts to sell/purchase US \$, representing total purchase commitments of \$30.2 million (December 31, 2019 - \$15.8 million).

21. Segment information

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

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

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

Segment revenue and results

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

(US\$ millions)	Three Months Ended Jun 30,		Six Months Ended Jun 30,	
	2020	2019	2020	2019
Revenue by segment				
North America	204.0	203.9	348.6	345.5
Europe	49.7	63.4	123.2	128.0
Rest of World	28.5	49.5	52.7	83.8
Gross product sales	282.2	316.8	524.5	557.3
Sales allowances	(29.6)	(26.2)	(66.5)	(56.6)
Net sales	252.6	290.6	458.0	500.7
Other revenue	28.5	30.4	50.4	59.3
Total revenue	281.1	321.0	508.4	560.0
Segment income (loss) before tax recovery				
North America	15.2	11.6	(27.7)	(8.9)
Europe	(9.6)	2.2	(23.1)	(1.1)
Rest of World	(16.8)	1.1	(31.2)	—
Total segment (loss) income before tax recovery	(11.2)	14.9	(82.0)	(10.0)
Corporate and other	(1.6)	(1.9)	(5.7)	(5.4)
(Loss) income before income tax recovery	(12.8)	13.0	(87.7)	(15.4)

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21. Segment information (continued)

Revenues for North America include revenues attributable to Canada of \$35.2 million (2019 - \$36.5 million) and \$59.1 million (2019 - \$69.6 million) for the three and six months ended June 30, 2020, respectively.

Revenue reported by segment above represents revenue generated from external customers. There were no inter-segment sales in the current year (2019 - nil). The Company does not include sales adjustments such as trade discounts and other allowances in reporting revenue by segment (referred to as "gross product sales").

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 2. Segment loss represents loss before income tax recovery 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)	Jun 30, 2020	Dec 31, 2019
North America	1,101.8	872.7
Europe	136.1	211.2
Rest of World	92.2	120.7
Total segment assets	1,330.1	1,204.6
Corporate and other	45.5	51.8
Total assets	1,375.6	1,256.4

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

(US\$ millions)	Jun 30, 2020	Dec 31, 2019
North America	424.2	395.1
Europe	29.3	26.9
Rest of World	21.1	13.4
Total segment non-current assets	474.6	435.4
Corporate and other	68.6	60.3
Total non-current assets	543.2	495.7

Non-current assets for North America include assets attributable to Canada of \$135.0 million as at June 30, 2020 (December 31, 2019 - \$140.2 million).

Segment liabilities

(US\$ millions)	Jun 30, 2020	Dec 31, 2019
North America	610.7	387.6
Europe	50.9	68.9
Rest of World	27.9	56.9
Total segment liabilities	689.5	513.4
Corporate and other	(26.2)	(17.4)
Total liabilities	663.3	496.0

21. Segment information (continued)

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.

Capital expenditures by reportable segment

(US\$ millions)	Three Months Ended Jun 30,		Six Months Ended Jun 30,	
	2020	2019	2020	2019
North America	22.6	17.7	39.6	37.1
Europe	1.8	2.7	3.3	4.2
Rest of World	2.0	2.2	2.5	2.9
Total capital expenditures	26.4	22.6	45.4	44.2

Depreciation and amortization by reportable segment

(US\$ millions)	Three Months Ended Jun 30,		Six Months Ended Jun 30,	
	2020	2019	2020	2019
North America	21.2	16.4	39.6	32.3
Europe	2.1	1.6	4.8	3.6
Rest of World	1.0	1.0	2.2	1.8
Total segment depreciation and amortization	24.3	19.0	46.6	37.7
Corporate and other	1.4	5.8	2.4	8.5
Total depreciation and amortization	25.7	24.8	49.0	46.2

No impairment losses were recognized in respect of property, plant and equipment, intangible assets, right-of-use assets and goodwill for the six months ended June 30, 2020 (2019 - 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 Jun 30,		Six Months Ended Jun 30,	
	2020	2019	2020	2019
Activities, games & puzzles and plush	95.5	80.1	173.6	143.1
Remote control and interactive characters	33.2	44.5	53.4	75.6
Boys action and construction	44.5	64.0	103.6	113.4
Pre-school and girls	74.3	96.4	130.8	159.8
Outdoor	34.7	31.8	63.1	65.4
Gross product sales	282.2	316.8	524.5	557.3
Sales allowances	(29.6)	(26.2)	(66.5)	(56.6)
Net sales	252.6	290.6	458.0	500.7
Other revenue	28.5	30.4	50.4	59.3
Total revenue	281.1	321.0	508.4	560.0

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21. Segment information (*continued*)

Major customers

Sales to the Company's three largest customers accounted for 60.1% (2019 - 50.7%) and 52.2% (2019 - 47.3%) of consolidated gross product sales for the three and six months ended June 30, 2020, 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 six months ended June 30, 2020.

(US\$ millions)	Three Months Ended Jun 30,		Six Months Ended Jun 30,	
	2020	2019	2020	2019
Gross product sales				
Customer 1	88.9	81.2	136.1	137.6
Customer 2	49.6	44.2	87.9	75.1
Customer 3	31.2	35.3	49.9	51.1
Total	169.7	160.7	273.9	263.8

22. Prior year comparatives

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