

Spin Master Corp.

Condensed consolidated interim financial statements (unaudited)

For the three and nine months ended September 30, 2020 and September 30, 2019

Spin Master Corp.

Condensed consolidated interim statements of financial position

(Unaudited, in US\$ millions)	Notes	Sep 30, 2020	Dec 31, 2019
Assets			
Current assets			
Cash		207.3	115.3
Trade receivables	7	350.1	370.7
Other receivables	7	54.2	57.0
Inventories	8	155.9	185.3
Advances on royalties		15.5	18.0
Prepaid expenses		7.7	14.4
		790.7	760.7
Non-current assets			
Intangible assets	10	190.0	182.4
Goodwill	11	137.1	138.8
Right-of-use assets	17	68.3	78.3
Property, plant and equipment	9	59.0	66.8
Deferred income tax assets		83.6	26.2
Advances on royalties		—	3.2
Other assets		3.0	—
		541.0	495.7
Total assets		1,331.7	1,256.4
Liabilities			
Current liabilities			
Trade payables and accrued liabilities	12	356.9	345.6
Contract liabilities	12	15.9	7.6
Provisions and contingent liabilities	13	25.4	26.2
Income tax payable		17.8	4.5
Lease liabilities	17	15.4	15.1
		431.4	399.0
Non-current liabilities			
Provisions and contingent liabilities	13	8.8	9.0
Deferred income tax liabilities		19.7	20.4
Lease liabilities	17	60.1	67.6
		88.6	97.0
Total liabilities		520.0	496.0
Shareholders' equity			
Share capital	14	724.3	714.5
Retained earnings (accumulated deficit)		17.1	(28.1)
Contributed surplus		34.2	35.8
Accumulated other comprehensive income		36.1	38.2
Total shareholders' equity		811.7	760.4
Total liabilities and shareholders' equity		1,331.7	1,256.4

Approved by the Board of Directors on November 11, 2020.

The accompanying notes on pages 5 to 21 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of earnings and comprehensive income

(Unaudited, in US\$ millions, except earnings per share)	Notes	Three Months Ended Sep 30		Nine Months Ended Sep 30	
		2020	2019	2020	2019
Revenue	3	571.6	548.1	1,080.0	1,108.1
Cost of sales		293.7	261.2	593.1	549.2
Gross profit		277.9	286.9	486.9	558.9
Expenses					
Selling, marketing, distribution and product development	5	92.2	98.4	232.7	230.6
Administrative expenses	5	67.0	55.5	187.9	181.3
Depreciation and amortization expenses	5	9.5	9.0	27.7	23.8
Other income		—	(0.3)	(1.0)	(0.9)
Foreign exchange loss (gain)		5.1	(4.1)	17.1	5.9
Finance costs	4	2.6	3.2	8.7	8.5
Income before income tax expense (recovery)		101.5	125.2	13.8	109.7
Income tax expense (recovery)	6	14.7	33.0	(31.4)	28.2
Net income		86.8	92.2	45.2	81.5
Earnings per share					
Basic	15	0.85	0.90	0.44	0.80
Diluted	15	0.83	0.89	0.43	0.79

(Unaudited, in US\$ millions, except earnings per share)	Notes	Three Months Ended Sep 30		Nine Months Ended Sep 30	
		2020	2019	2020	2019
Net income		86.8	92.2	45.2	81.5
Items that may be subsequently reclassified to net income					
Foreign currency translation gain (loss) on foreign operations		9.7	(8.8)	(2.1)	10.2
Other comprehensive income (loss)		9.7	(8.8)	(2.1)	10.2
Total comprehensive income		96.5	83.4	43.1	91.7

The accompanying notes on pages 5 to 21 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of changes in shareholders' equity

(Unaudited, in US\$ millions)	Note	Share capital	(Accumulated deficit) retained earnings	Contributed surplus	Accumulated other comprehensive income	Total
January 1, 2019		694.1	(92.4)	40.9	19.9	662.5
Net income		—	81.5	—	—	81.5
Other comprehensive income, net of tax		—	—	—	10.2	10.2
Share-based compensation	14	—	—	11.7	—	11.7
Shares released from equity participation	14	8.4	—	(8.4)	—	—
Exercise of share options	14	0.1	—	(0.1)	—	—
Shares issued upon settlement of LTIP	14	11.4	—	(11.5)	—	(0.1)
September 30, 2019		714.0	(10.9)	32.6	30.1	765.8
January 1, 2020		714.5	(28.1)	35.8	38.2	760.4
Net income		—	45.2	—	—	45.2
Other comprehensive loss		—	—	—	(2.1)	(2.1)
Cancellation of common shares	14	(1.1)	—	—	—	(1.1)
Share-based compensation	14	—	—	9.3	—	9.3
Shares released from equity participation		8.2	—	(8.2)	—	—
Shares issued upon settlement of LTIP	14	2.7	—	(2.7)	—	—
September 30, 2020		724.3	17.1	34.2	36.1	811.7

The accompanying notes on pages 5 to 21 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of cash flows

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

	Notes	2020	2019
Operating activities			
Net income		45.2	81.5
Adjustments to reconcile net income to cash provided by operating activities			
Income tax (recovery) expense	6	(31.4)	28.2
Interest expense (income)	4	2.0	(1.0)
Depreciation and amortization	5	75.4	68.4
Accretion expense - lease liabilities	4	3.5	3.5
Accretion expense - other	4	0.1	1.3
Amortization of financing costs	4	0.3	0.7
Share-based compensation expense	14	9.3	11.7
Net change in non-cash working capital	16	84.8	(83.3)
Net change in provisions and contingent consideration liabilities		(0.2)	(0.2)
Income taxes paid		(21.3)	(23.0)
Income taxes received		6.9	—
Interest paid		(2.0)	(0.2)
Cash provided by operating activities		172.6	87.6
Investing activities			
Investment in property, plant and equipment	9	(19.2)	(32.9)
Investment in intangible assets	10	(45.0)	(31.2)
Business combinations, net of cash acquired		1.0	(9.4)
Investment in trademark license agreement	10	(2.4)	—
Proceeds from disposal of property, plant and equipment	10	—	0.5
Cash used in investing activities		(65.6)	(73.0)
Financing activities			
Proceeds from loans and borrowings		350.0	2.3
Repayment of loans and borrowings		(350.0)	—
Payment of lease liabilities		(11.2)	(10.6)
Issuance of common shares from exercise of share options		—	0.1
Cancellation of common shares	14	(1.1)	—
Cash used in financing activities		(12.3)	(8.2)
Effect of foreign currency exchange rate changes on cash		(2.7)	1.5
Net increase in cash during the period		92.0	7.9
Cash, beginning of period		115.3	143.5
Cash, end of period		207.3	151.4

The accompanying notes on pages 5 to 21 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

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

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 20). 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.

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

These condensed consolidated interim financial statements and accompanying notes were approved and authorized for issuance by the Board of Directors of the Company on November 11, 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. The Company subsequently repaid \$50.0 million and \$300.0 million in the second and third quarters of 2020, respectively.

2. Summary of significant accounting policies (continued)

The Company has also assessed tangible and intangible assets assigned to cash generating units ("CGUs") for any indication of impairment. For assets where indicators of impairment exist, the Company has determined the recoverable amount of net assets assigned to CGUs 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. No impairment losses were recognized in respect of tangible or intangible assets for the nine months ended September 30, 2020 (2019 - nil).

The Company has assessed the significant accounting judgments and estimates in preparing the Company's condensed consolidated interim financial statements for the three and nine months ended September 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 US\$, which is the Company's presentation currency; however, the functional currency of the Company is the Canadian dollar. The functional currency of the operating subsidiaries is typically the economic currency in the associated jurisdiction. At September 30, 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 related to COVID-19 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 and has recognized an impact for the nine months ended September 30, 2020 in its lease liabilities on the balance sheet of \$0.1 million related to rent forgiveness and \$0.8 million related to rent deferrals.

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, digital games revenues and the distribution of television programs ("Other revenue")

(US\$ millions)	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2020	2019	2020	2019
Revenue from sale of goods	523.3	521.4	981.3	1,022.1
Other revenue	48.3	26.7	98.7	86.0
Revenue	571.6	548.1	1,080.0	1,108.1

Spin Master Corp.

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

3. Revenue (continued)

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.

4. Finance costs

(US\$ millions)	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2020	2019	2020	2019
Bank fees	1.1	1.7	2.8	4.0
Accretion expense - lease liabilities	1.2	1.3	3.5	3.5
Accretion (income) expense - other	(0.4)	0.4	0.1	1.3
Amortization of financing costs	0.1	0.2	0.3	0.7
Interest expense (income)	0.6	(0.4)	2.0	(1.0)
Finance costs	2.6	3.2	8.7	8.5

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 Sep 30		Nine Months Ended Sep 30	
	2020	2019	2020	2019
Selling	39.8	36.5	77.5	74.5
Marketing	25.0	35.1	63.1	82.4
Distribution	20.7	18.4	68.0	51.6
Product development	6.7	8.4	24.1	22.1
Selling, marketing, distribution and product development expenses	92.2	98.4	232.7	230.6

Administrative expenses

(US\$ millions)	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2020	2019	2020	2019
Employee compensation and benefits	50.7	41.2	132.5	131.3
Property and operations	3.8	5.1	13.6	17.0
Professional services	6.0	5.3	18.3	15.3
Technology	3.8	3.1	10.1	9.0
Recruiting and training	0.9	1.5	4.7	4.2
Restructuring	—	—	—	2.7
Other	1.8	(0.7)	8.7	1.8
Administrative expenses	67.0	55.5	187.9	181.3

Spin Master Corp.

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

5. Expenses (continued)

Employee compensation and benefits

(US\$ millions)	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2020	2019	2020	2019
Salaries, wages and bonuses	1.6	1.5	4.3	3.8
Employee benefits	0.3	0.2	0.8	0.6
Employee compensation and benefits expenses in cost of sales	1.9	1.7	5.1	4.4
Salaries, wages and bonuses	40.9	33.3	102.5	98.7
Share-based compensation	2.9	3.4	9.3	11.7
Restructuring expense	1.4	0.3	4.8	5.4
Employee benefits	5.5	4.2	15.9	15.5
Employee compensation and benefits in administrative expenses	50.7	41.2	132.5	131.3
Employee compensation and benefits	52.6	42.9	137.6	135.7

Depreciation and amortization expense

(US\$ millions)	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2020	2019	2020	2019
Property, plant and equipment				
Moulds, dies and tools, included in cost of sales	6.1	5.9	17.8	15.8
Equipment	0.8	1.1	3.0	2.7
Land and leasehold improvements	1.6	1.5	4.7	4.2
Computer hardware	0.3	0.3	1.1	1.0
	8.8	8.8	26.6	23.7
Intangible assets				
Trademarks, licenses, IP & customer lists - definite	1.7	1.7	5.4	5.1
Content development, included in cost of sales	11.2	7.2	30.0	28.4
Computer software	1.3	0.6	3.5	1.6
	14.2	9.5	38.9	35.1
Right-of-use assets	3.4	3.9	9.9	9.6
Depreciation and amortization expense	26.4	22.2	75.4	68.4

6. Income tax

Income tax recognized in net income:

(US\$ millions)	Three Months Ended Sep 30		Nine Months Ended Sep 30	
	2020	2019	2020	2019
Current tax expense	4.0	31.9	27.8	27.3
Deferred tax expense (recovery)	10.7	1.1	(59.2)	0.9
Income tax expense (recovery)	14.7	33.0	(31.4)	28.2

Spin Master Corp.

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

6. Income tax (continued)

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

(US\$ millions)	2020		2019	
Income before income tax (recovery) expense	13.8		109.7	
Income tax expense at Canadian statutory tax rate of 26.5% (2019 - 26.5%)	3.7	26.5 %	29.1	26.5 %
Effect of:				
Different tax rates of subsidiaries operating in other jurisdictions	(1.1)	(7.9)%	(2.2)	(2.0)%
(Income) expense not (taxable) deductible in determining taxable income	(0.8)	(5.7)%	0.4	0.4 %
Recognition of previously unrecognized tax losses and other deferred tax assets	(0.1)	(0.7)%	—	— %
Internal transfer of intangible property	(33.3)	(241.3)%	—	— %
Other	0.2	1.6 %	0.3	0.3 %
Unused tax losses and tax attributes not recognized as deferred tax assets	—	— %	0.6	0.5 %
Income tax (recovery) expense	(31.4)	(227.5)%	28.2	25.7 %

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)	Sep 30, 2020	Dec 31, 2019
Trade receivables	496.4	546.2
Provisions for sales allowances	(142.8)	(174.9)
Allowance for doubtful accounts	(3.5)	(0.6)
	350.1	370.7
Other receivables		
Investment tax credits receivable	25.3	24.2
Sales tax receivables	6.1	12.0
Royalty receivables	9.8	14.2
Other	13.0	6.6
	54.2	57.0
Net trade and other receivables	404.3	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)	Sep 30, 2020	Dec 31, 2019
Raw materials	13.8	14.2
Finished goods	142.1	171.1
Inventories	155.9	185.3

The cost of inventories recognized as an expense in cost of sales for the three and nine months ended September 30, 2020 was \$252.6 million (2019 - \$234.0 million) and \$474.5 million (2019 - \$474.5 million), respectively.

Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2020 and September 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	15.1	0.8	0.7	2.6	19.2
Foreign currency translation	2.0	1.0	(2.0)	(0.2)	0.8
September 30, 2020	146.0	31.5	37.8	16.6	231.9
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	(17.8)	(3.0)	(4.7)	(1.1)	(26.6)
Foreign currency translation	(1.3)	(0.1)	0.1	0.1	(1.2)
September 30, 2020	(123.4)	(19.5)	(19.4)	(10.6)	(172.9)
Net carrying amount					
December 31, 2019	24.6	13.3	24.3	4.6	66.8
September 30, 2020	22.6	12.0	18.4	6.0	59.0

As the COVID-19 pandemic has caused disruption to businesses globally, the Company assessed tangible assets for any indication of impairment. For the nine months ended September 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.

Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2020 and September 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	—	1.0	36.4	7.6	45.0
Assets recognized upon acquisition	—	2.4	—	—	2.4
Foreign currency translation	0.1	(0.9)	(1.1)	(0.6)	(2.5)
September 30, 2020	115.8	54.2	199.8	32.9	402.7
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	—	(5.4)	(30.0)	(3.5)	(38.9)
Foreign currency translation	—	0.4	0.6	0.6	1.6
September 30, 2020	—	(23.5)	(166.1)	(23.1)	(212.7)
Net carrying amount					
December 31, 2019	115.7	33.2	27.8	5.7	182.4
September 30, 2020	115.8	30.7	33.7	9.8	190.0

During the nine months ended September 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 three and nine months ended September 30, 2020 (2019 - nil).

11. Goodwill

(US\$ millions)	Sep 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	(0.7)	1.0
Balance, end of period	137.1	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 nine months ended September 30, 2020 (September 30, 2019 - nil).

Spin Master Corp.

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

12. Trade payables and accrued liabilities

(US\$ millions)	Sep 30, 2020	Dec 31, 2019
Trade payables	229.6	215.8
Accrued liabilities	127.3	129.8
Trade payables and accrued liabilities	356.9	345.6

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

During the nine months ended September 30, 2020, the Company announced changes in senior leadership. Included within accrued liabilities is a restructuring provision of \$1.2 million as at September 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 September 30, 2020, the Company had contract liabilities of \$15.9 million (December 31, 2019 - \$7.6 million).

13. 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)	Sep 30, 2020	Dec 31, 2019
Defectives (i)	13.5	13.8
Supplier liabilities (ii)	9.4	4.9
Contingent consideration, acquisitions (iii)	11.3	16.5
Provisions and contingent liabilities	34.2	35.2
Current	25.4	26.2
Non-current	8.8	9.0
Provisions and contingent liabilities	34.2	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.
- (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 September 30, 2020 was \$11.3 million (December 31, 2019 - \$16.5 million) and is based on the achievement of certain financial performance criteria. The accretion of the royalty is recorded in finance costs in the condensed consolidated interim statements of operations and comprehensive income.

Spin Master Corp.

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

14. Share capital

(a) Authorized as at September 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.

	Nine Months Ended Sep 30 2020		Year Ended Dec 31 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	10.9	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	363.8	31.6	354.0
Common shares issued and outstanding, end of period	102.0	724.3	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.

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 September 30, 2020, 151,993 (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 \$2.1 million (December 31, 2019 - \$14.9 million) based on the weighted average of the contractual life remaining of 10 months.

Share based compensation expense of \$4.2 million (2019 - \$2.7 million) relating to Participation Arrangements is recorded in administrative expenses in the condensed consolidated interim statement of earnings and comprehensive income for the nine months ended September 30, 2020.

Spin Master Corp.

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

14. Share capital (continued)

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 nine months ended September 30, 2020 through the issuance of shares. The settlements resulted in a transfer of \$2.7 million (2019 - 11.4 million) from contributed surplus to share capital.

RSUs and PSUs

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

	Sep 30, 2020	Dec 31, 2019
(number of units)		
Outstanding, beginning of period	713,908	708,090
Granted	1,415,417	460,559
Exercised	(247,284)	(413,088)
Forfeited	(118,371)	(41,653)
Outstanding, end of period	1,763,670	713,908

Included in the above table are grants of 925,788 PSUs to certain key employees during the nine months ended September 30, 2020 (December 31, 2019 - 453,246).

Share based compensation expense of \$4.6 million (2019 - \$7.6 million) relating to RSUs and PSUs is recorded in administrative expenses in the condensed consolidated interim statement of earnings and comprehensive income for the nine months ended September 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 September 30, 2020 and December 31, 2019.

	Sep 30, 2020	Dec 31, 2019
(number of units)		
Outstanding, beginning of year	78,311	60,393
Granted	33,512	17,918
Outstanding, end of year	111,823	78,311

Share based compensation expense of \$0.5 million (2019 - \$0.4 million) with a mark to market gain of \$0.4 million (2019 - loss of \$0.1 million) relating to DSUs is recorded in administrative expenses in the condensed consolidated interim statement of earnings and comprehensive income for the nine months ended September 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.

Spin Master Corp.

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

14. Share capital (continued)

As at September 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 - \$1.4 million) relating to Options is recorded in administrative expenses in the condensed consolidated interim statement of earnings and comprehensive income for the nine months ended September 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)	Nine Months Ended Sep 30	
	2020	2019
Equity-settled RSUs and PSUs	4.6	7.6
Equity-settled Participation Arrangements	4.2	2.7
Share purchase options	0.5	1.4
Share based compensation expense	9.3	11.7

Share based compensation expense of \$9.3 million (2019 - \$11.7 million) is recorded in administrative expenses in the condensed consolidated interim statement of earnings and comprehensive income for the nine months ended September 30, 2020. A corresponding amount was recorded in contributed surplus.

15. Earnings per share

	Three months ended Sep 30, 2020		Three months ended Sep 30, 2019	
	Weighted average number of shares	Per common share amount (\$)	Weighted average number of shares	Per common share amount (\$)
Basic	102.0	0.85	102.2	0.90
Diluted	104.0	0.83	103.0	0.89

	Nine months ended Sep 30, 2020		Nine months ended Sep 30, 2019	
	Weighted average number of shares	Per share amount (\$)	Weighted average number of shares	Per share amount (\$)
Basic	102.0	0.44	102.0	0.80
Diluted	104.0	0.43	102.8	0.79

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.

Spin Master Corp.

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

16. Changes in net working capital

(US\$ millions)	Nine Months Ended Sep 30	
	2020	2019
Decrease (increase) in:		
Trade receivables	32.7	(124.0)
Other receivables	4.2	18.3
Inventories	27.6	(108.0)
Prepaid expenses	8.8	3.7
Advances on royalties	2.7	5.5
	76.0	(204.5)
(Decrease) increase in:		
Trade payables and accrued liabilities	(4.7)	109.5
Contract liabilities	8.3	1.1
Provisions and contingent liabilities	(0.7)	1.0
Other	5.9	9.6
	8.8	121.2
Total changes in net working capital	84.8	(83.3)

17. Leases

Amounts recognized in the balance sheet

Leased buildings represented approximately 96.9% 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)
Foreign currency translation	(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	0.6	0.4	1.0
Disposals and modifications	(0.1)	—	(0.1)
Depreciation and amortization	(8.8)	(1.1)	(9.9)
Foreign currency translation	(0.9)	(0.1)	(1.0)
September 30, 2020	66.2	2.1	68.3

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

Spin Master Corp.

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

17. 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	1.0
Disposals and modifications	(0.1)
Accretion	3.5
Lease payments	(11.2)
Foreign currency translation	(0.4)
September 30, 2020	75.5
Lease Liabilities, current	15.4
Lease Liabilities, non-current	60.1

18. Commitments for expenditures

As at September 30, 2020, the Company had minimum guarantees due to licensors of \$36.9 million (December 31, 2019 - \$32.7 million).

19. 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)	Sep 30, 2020	Dec 31, 2019
Financial assets		
Cash	207.3	115.3
Trade receivables	350.1	370.7
Other receivables	54.2	57.0
Financial assets	611.6	543.0
Financial liabilities		
Trade payables and accrued liabilities	356.9	345.6
Provisions and contingent liabilities	34.2	35.2
Financial liabilities	391.1	380.8

The fair value of foreign exchange forward contracts generated an unrealized loss of \$1.5 million as at September 30, 2020 and is recorded in other liabilities (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.

Spin Master Corp.

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

19. 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 September 30, 2020, the Company is committed under outstanding foreign exchange contracts to purchase US\$, representing total purchase commitments of \$68.1 million (December 31, 2019 - \$15.8 million).

20. 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 gross product sales and results from operations by reportable segment are as follows:

(US\$ millions)	Three Months Ended Sep 30,		Nine Months Ended Sep 30,	
	2020	2019	2020	2019
Revenue by segment				
North America	362.4	372.0	711.0	717.5
Europe	159.8	138.2	283.0	266.2
Rest of World	65.2	73.1	117.9	156.8
Gross product sales	587.4	583.3	1,111.9	1,140.5
Sales allowances	(64.1)	(61.9)	(130.6)	(118.4)
Net sales	523.3	521.4	981.3	1,022.1
Other revenue	48.3	26.7	98.7	86.0
Revenue	571.6	548.1	1,080.0	1,108.1
Segment income before tax expense (recovery)				
North America	35.4	98.1	7.7	89.1
Europe	26.6	20.1	3.5	19.0
Rest of World	37.6	5.8	6.4	5.8
Total segment income before tax expense (recovery)	99.6	124.0	17.6	113.9
Corporate and other	1.9	1.1	(3.8)	(4.2)
Income before income tax expense (recovery)	101.5	125.1	13.8	109.7

Spin Master Corp.

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

20. Segment information (continued)

Revenues for North America include revenues attributable to Canada of \$59.6 million (2019 - \$48.4 million) and \$118.7 million (2019 - \$117.9 million) for the three and nine months ended September 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 income represents income before income tax expense (recovery) earned by each segment prior to any allocation of other expenses, foreign exchange loss (gain) and finance costs. This measure is reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Segment assets

(US\$ millions)	Sep 30, 2020	Dec 31, 2019
North America	974.7	872.7
Europe	212.9	211.2
Rest of World	105.5	120.7
Total segment assets	1,293.1	1,204.6
Corporate and other	38.6	51.8
Total assets	1,331.7	1,256.4

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

(US\$ millions)	Sep 30, 2020	Dec 31, 2019
North America	416.2	395.1
Europe	33.9	26.9
Rest of World	17.6	13.4
Total segment non-current assets	467.7	435.4
Corporate and other	73.3	60.3
Total non-current assets	541.0	495.7

Non-current assets for North America include assets attributable to Canada of \$139.4 million as at September 30, 2020 (December 31, 2019 - \$140.2 million).

Segment liabilities

(US\$ millions)	Sep 30, 2020	Dec 31, 2019
North America	412.4	387.6
Europe	89.1	68.9
Rest of World	41.6	56.9
Total segment liabilities	543.1	513.4
Corporate and other	(23.1)	(17.4)
Total liabilities	520.0	496.0

Spin Master Corp.

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

20. 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 Sep 30,		Nine Months Ended Sep 30,	
	2020	2019	2020	2019
North America	18.3	23.5	57.9	60.6
Europe	1.1	1.8	4.4	6.0
Rest of World	1.8	1.1	4.3	4.0
Total capital expenditures	21.2	26.4	66.6	70.6

Depreciation and amortization by reportable segment

(US\$ millions)	Three Months Ended Sep 30,		Nine Months Ended Sep 30,	
	2020	2019	2020	2019
North America	21.6	16.2	61.2	48.5
Europe	2.9	1.9	7.7	5.6
Rest of World	1.1	0.8	3.3	2.6
Total segment depreciation and amortization	25.6	18.9	72.2	56.7
Corporate and other	0.8	3.3	3.2	11.7
Total depreciation and amortization	26.4	22.2	75.4	68.4

No impairment losses were recognized in respect of property, plant and equipment, intangible assets, right-of-use assets and goodwill for the three and nine months ended September 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 Sep 30,		Nine Months Ended Sep 30,	
	2020	2019	2020	2019
Activities, games & puzzles and plush	172.5	152.4	346.1	295.6
Remote control and interactive characters	88.6	117.3	142.0	192.8
Boys action and construction	131.6	103.2	235.2	216.6
Pre-school and girls	182.4	204.0	313.2	363.8
Outdoor	12.3	6.4	75.4	71.7
Gross product sales	587.4	583.3	1,111.9	1,140.5
Sales allowances	(64.1)	(61.9)	(130.6)	(118.4)
Net sales	523.3	521.4	981.3	1,022.1
Other revenue	48.3	26.7	98.7	86.0
Revenue	571.6	548.1	1,080.0	1,108.1

Spin Master Corp.

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

20. Segment information (*continued*)

Major customers

Sales to the Company's three largest customers accounted for 48.7% (2019 - 49.0%) and 50.4% (2019 - 48.2%) of consolidated gross product sales for the three and nine months ended September 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 three and nine months ended September 30, 2020 (2019 - nil).

(US\$ millions)	Three Months Ended Sep 30,		Nine Months Ended Sep 30,	
	2020	2019	2020	2019
Gross product sales				
Customer 1	126.4	151.4	262.5	289.0
Customer 2	92.2	83.2	180.1	158.3
Customer 3	67.6	51.1	117.5	102.2
Total	286.2	285.7	560.1	549.5

21. Prior year comparatives

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

22. Subsequent event

On October 27, 2020, the Company announced it reached an agreement to acquire London-based Rubik's Brand Ltd., which owns the rights to Rubik's Cube, for \$50.0 million. The transaction is expected to close on January 4, 2021. Rubik's Cube is expected to be included in the Activities, Games & Puzzles and Plush product category.