

Spin Master Corp.

Condensed consolidated interim financial statements (unaudited)

For the three months ended March 31, 2021 and March 31, 2020

Spin Master Corp.

Condensed consolidated interim statements of financial position

(Unaudited, in US\$ millions)	Notes	Mar 31, 2021	Dec 31, 2020
Assets			
Current assets			
Cash		262.3	320.6
Trade receivables	8	185.2	265.2
Other receivables	8	78.6	73.4
Inventories	9	103.9	102.0
Advances on royalties		13.2	17.2
Prepaid expenses		11.7	7.9
Other assets	10	—	3.0
		654.9	789.3
Non-current assets			
Intangible assets	12	228.0	192.0
Goodwill	13	161.1	138.0
Right-of-use assets	21	70.6	67.0
Property, plant and equipment	11	49.5	53.4
Deferred income tax assets		98.5	98.7
Advances on royalties		0.7	0.7
Other assets	10	3.9	3.0
		612.3	552.8
Total assets		1,267.2	1,342.1
Liabilities			
Current liabilities			
Trade payables and accrued liabilities	14	246.3	314.4
Contract liabilities	15	16.4	25.3
Provisions and contingent liabilities	17	24.0	29.2
Income tax payable		7.4	21.1
Lease liabilities	21	15.5	15.4
		309.6	405.4
Non-current liabilities			
Provisions and contingent liabilities	17	5.1	5.2
Deferred income tax liabilities		36.9	29.6
Lease liabilities	21	62.2	59.0
		104.2	93.8
Total liabilities		413.8	499.2
Shareholders' equity			
Share capital	18	732.0	724.8
Retained earnings		20.6	17.4
Contributed surplus		32.6	36.6
Accumulated other comprehensive income		68.2	64.1
Total shareholders' equity		853.4	842.9
Total liabilities and shareholders' equity		1,267.2	1,342.1

Approved by the Board of Directors on May 5, 2021.

The accompanying notes on pages 5 to 24 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 Mar 31	
		2021	2020
Revenue	3	316.6	227.3
Cost of sales		159.2	136.5
Gross profit		157.4	90.8
Expenses			
Selling, marketing, distribution and product development	5	69.9	80.9
Administrative expenses	5	69.0	65.7
Depreciation and amortization expenses	5	8.9	9.2
Other income		(0.8)	(1.4)
Foreign exchange loss	6	3.7	8.5
Finance costs	4	2.5	2.8
Income (loss) before income tax expense (recovery)		4.2	(74.9)
Income tax expense (recovery)	7	1.0	(48.2)
Net income (loss)		3.2	(26.7)
Earnings per share			
Basic	19	0.03	(0.26)
Diluted	19	0.03	(0.26)

(Unaudited, in US\$ millions)	Notes	Three Months Ended Mar 31	
		2021	2020
Net income (loss)		3.2	(26.7)
Items that may be subsequently reclassified to net income (loss)			
Foreign currency translation gain (loss) on foreign operations		4.1	(29.8)
Other comprehensive income (loss)		4.1	(29.8)
Total comprehensive income (loss)		7.3	(56.5)

The accompanying notes on pages 5 to 24 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, 2020		714.5	(28.1)	35.8	38.2	760.4
Net loss		—	(26.7)	—	—	(26.7)
Other comprehensive loss		—	—	—	(29.8)	(29.8)
Cancellation of common shares	18	(1.1)	—	—	—	(1.1)
Share-based compensation	18	—	—	3.6	—	3.6
Shares released from equity participation	18	3.9	—	(3.9)	—	—
Shares issued upon settlement of LTIP	18	2.1	—	(2.1)	—	—
March 31, 2020		719.4	(54.8)	33.4	8.4	706.4
January 1, 2021		724.8	17.4	36.6	64.1	842.9
Net income		—	3.2	—	—	3.2
Other comprehensive income		—	—	—	4.1	4.1
Share-based compensation	18	—	—	3.2	—	3.2
Shares issued upon settlement of LTIP	18	7.2	—	(7.2)	—	—
March 31, 2021		732.0	20.6	32.6	68.2	853.4

The accompanying notes on pages 5 to 24 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of cash flows

For the three months ended March 31

(Unaudited, in US\$ millions)

	Notes	2021	2020
Operating activities			
Net income (loss)		3.2	(26.7)
Adjustments to reconcile net income to cash provided by operating activities			
Income tax expense (recovery)	7	1.0	(48.2)
Interest income	4	(0.1)	—
Depreciation and amortization expense	5	23.1	23.3
Loss on disposal of property, plant and equipment	11	0.1	—
Accretion expense	4	1.5	1.5
Amortization of financing costs	4	0.1	0.1
Net unrealized gain on investment	10	(0.9)	—
Impairment of intangible asset	12	0.9	—
Unrealized foreign exchange loss	6	2.5	7.8
Share-based compensation expense	18	3.2	3.6
Net change in non-cash working capital	20	(12.4)	39.3
Net change in provisions and contingent liabilities		1.9	(0.2)
Income taxes paid		(15.3)	(9.5)
Interest received		0.2	0.2
Cash provided by (used in) operating activities		9.0	(8.8)
Investing activities			
Investment in property, plant and equipment	11	(5.5)	(3.2)
Investment in intangible assets	12	(10.0)	(15.8)
Business acquisitions, net of cash acquired	23	(48.5)	—
Cash used in investing activities		(64.0)	(19.0)
Financing activities			
Proceeds from loans and borrowings	16	—	350.0
Payment of lease liabilities	21	(4.8)	(3.9)
Cancellation of common shares	18	—	(1.1)
Cash (used in) provided by financing activities		(4.8)	345.0
Effect of foreign currency exchange rate changes on cash		1.5	(8.5)
Net increase (decrease) in cash during the period		(58.3)	308.7
Cash, beginning of period		320.6	115.3
Cash, end of period		262.3	424.0

The accompanying notes on pages 5 to 24 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2021 and March 31, 2020

1. Description of business

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

The Company has three reportable operating segments: North America, Europe and Rest of World (see Note 25).

2. Summary of significant accounting policies

(A) Statement of compliance

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

All financial information is presented in millions of United States dollars ("US\$") and has been rounded to the nearest hundred thousand, except as otherwise indicated.

These condensed consolidated interim financial statements and accompanying notes were approved and authorized for issuance by the Board of Directors of the Company on May 5, 2021.

(B) Basis of preparation

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

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

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

Due to continued government-imposed restrictions and the closure of certain retail locations, the pandemic has resulted in reductions in retail consumer traffic in various countries globally, including some of Spin Master's largest markets. As a result, retail consumer traffic continues to be impacted in markets with government-imposed restrictions. Online and e-commerce channels continue to remain active in most countries.

As at March 31, 2021, the Company had unutilized liquidity of \$779.8 million, comprised of \$262.3 million in cash and \$517.5 million under its credit facilities. The Company believes it has sufficient liquidity to meet its operational requirements.

The Company has assessed significant accounting judgments and estimates in preparing the Company's condensed consolidated interim financial statements for the three months ended March 31, 2021. The Company has applied policies for the significant accounting judgments and estimate as disclosed in Note 3 of its audited consolidated financial statements for the year ended December 31, 2020.

Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2021 and March 31, 2020

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

(C) Functional and presentation currency

These condensed consolidated interim financial statements are presented in US\$, which is the Company's presentation currency; however, the functional currency of the Company is the Canadian dollar. The functional currency of the operating subsidiaries is typically the economic currency in the associated jurisdiction. At March 31, 2021 and 2020, the functional currencies of the Company's subsidiaries included the Canadian dollar, the Euro, the Great Britain pound sterling, the Hong Kong dollar, the Mexican peso, the Chinese yuan, the Vietnamese dong, the Japanese yen, the Swedish krona, the Australian dollar, the Indian rupee, the Polish zloty, and the Russian ruble.

3. Revenue

The Company earns revenue from the following primary sources:

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

(US\$ millions)	Three Months Ended Mar 31	
	2021	2020
Revenue from sale of goods	255.6	205.4
Entertainment and Licensing revenue	26.9	15.0
Digital games revenue	34.1	6.9
Revenue	316.6	227.3

Seasonality related to revenue from sale of goods is greatest in the third and fourth quarters of a fiscal year and least in the first and second quarters.

4. Finance costs

(US\$ millions)	Three Months Ended Mar 31	
	2021	2020
Bank fees	1.1	1.2
Accretion expense - lease liabilities	1.1	1.2
Accretion expense - other	0.4	0.3
Amortization of financing costs	0.1	0.1
Interest income	(0.1)	—
Other	(0.1)	—
Finance costs	2.5	2.8

5. Expenses

Expenses include 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 Mar 31	
	2021	2020
Selling	20.7	17.3
Marketing	26.3	26.7
Distribution	16.8	28.5
Product development	6.1	8.4
Selling, marketing, distribution and product development expenses	69.9	80.9

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Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2021 and March 31, 2020

5. Expenses (continued)

Administrative expenses

(US\$ millions)	Three Months Ended Mar 31	
	2021	2020
Employee compensation and benefits	49.0	43.6
Professional services	8.7	6.8
Property and operations	3.7	6.3
Technology	3.3	3.2
Recruiting and training	1.4	2.5
Other	2.9	3.3
Administrative expenses	69.0	65.7

Employee compensation and benefits

(US\$ millions)	Three Months Ended Mar 31	
	2021	2020
Salaries, wages and bonuses	1.3	1.5
Employee benefits	0.3	0.3
Employee compensation and benefits expenses in cost of sales	1.6	1.8
Salaries, wages and bonuses	38.8	30.2
Share-based compensation	3.2	3.6
Restructuring expense	0.7	4.4
Employee benefits	6.3	5.4
Employee compensation and benefits in administrative expenses	49.0	43.6
Employee compensation and benefits	50.6	45.4

Depreciation and amortization expenses

(US\$ millions)	Three Months Ended Mar 31	
	2021	2020
Property, plant and equipment		
Moulds, dies and tools, included in cost of sales	6.0	5.6
Equipment, included in cost of sales	0.1	0.1
Equipment	0.9	1.0
Land and leasehold improvements	1.6	1.6
Computer hardware	0.4	0.4
	9.0	8.7
Intangible assets		
Content development, included in cost of sales	6.4	8.0
Trademarks, licenses, IP & customer lists - definite	1.9	1.9
App development, included in cost of sales	1.7	0.4
Computer software	0.9	1.0
	10.9	11.3
Right-of-use assets	3.2	3.3
Depreciation and amortization expenses	23.1	23.3

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6. Foreign exchange loss

For the three months ended March 31, 2021, the Company incurred a foreign exchange loss (net of gains) of \$3.7 million (2020 - \$8.5 million).

(US\$ millions)	Three Months Ended Mar 31	
	2021	2020
Unrealized foreign exchange losses	2.5	7.8
Realized foreign exchange losses	1.2	0.7
Foreign exchange loss	3.7	8.5

Unrealized foreign exchange gains and losses are generated by the translation of monetary assets and liabilities denominated in a currency other than the functional currency and also includes gains and losses related to the Company's hedging programs. Realized foreign exchange gains and losses are recognized when monetary assets and liabilities denominated in a currency other than the functional currency of the applicable entity are settled. The Company uses derivative financial instruments such as foreign exchange forward contracts to manage foreign currency risk (see Note 24).

7. Income tax

Income tax recognized in net income (loss):

(US\$ millions)	Three Months Ended Mar 31	
	2021	2020
Current income tax expense	0.9	17.7
Deferred income tax expense (recovery)	0.1	(65.9)
Income tax expense (recovery)	1.0	(48.2)

The income tax expense (recovery) for the three months ended March 31, 2021 is calculated as follows:

(US\$ millions)	2021		2020	
Income before income tax expense (recovery)	4.2		(74.9)	
Income tax expense (recovery) at Canadian statutory tax rate of 26.5% (2020 - 26.5%)	1.1	26.5 %	(19.8)	26.5 %
Effect of:				
Different tax rates of subsidiaries operating in other jurisdictions	(0.1)	(2.7)%	4.0	(5.3)%
Expense not deductible in determining taxable income	—	— %	1.5	(2.0)%
Recognition of previously unrecognized tax losses and other deferred tax assets	—	— %	0.5	(0.7)%
Internal transfer of intangible property	—	— %	(33.3)	44.6 %
Other	—	— %	(1.1)	1.3 %
Income tax expense (recovery)	1.0	23.8 %	(48.2)	64.4 %

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.

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8. Trade and other receivables

Trade receivables

(US\$ millions)	Mar 31, 2021	Dec 31, 2020
Trade receivables	323.0	426.5
Provisions for sales allowances	(134.3)	(158.1)
Allowance for doubtful accounts	(3.5)	(3.2)
Trade receivables	185.2	265.2

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

Other receivables

(US\$ millions)	Mar 31, 2021	Dec 31, 2020
Investment tax credits receivable	34.9	31.8
Production receivables	15.0	10.6
Royalty receivables	11.5	11.5
Sales tax receivables	6.6	7.6
Digital games receivables	4.1	4.3
Unrealized foreign exchange gain	3.7	3.7
Other	2.8	3.9
Other receivables	78.6	73.4

9. Inventories

(US\$ millions)	Mar 31, 2021	Dec 31, 2020
Raw materials	7.9	7.8
Finished goods	96.0	94.2
Inventories	103.9	102.0

The cost of inventories recognized as an expense in cost of sales for the three months ended March 31, 2021 was \$122.9 million (2020 - \$97.8 million).

10. Other assets

(US\$ millions)	Mar 31, 2021	Dec 31, 2020
Current	—	3.0
Non-current	3.9	3.0
Other assets	3.9	6.0

The current portion of the other assets at December 31, 2020 related to the Company's deposit for the acquisition of Rubik's Brand Limited (see Note 23).

The non-current portion of the other assets includes \$3.9 million relating to the Company's investment in a limited partnership with a net unrealized gain of \$0.9 million recognized in other income in the condensed consolidated interim statement of earnings and comprehensive income for the three months ended March 31, 2021. The Company has paid \$2.0 million and is obligated to pay the remaining \$1.0 million upon receiving capital calls over the remaining term of the limited partnership agreement. The investment is held for medium to long-term strategic purposes (see Note 24)

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11. Property, plant and equipment

(US\$ millions)	Note	Moulds, dies and tools	Equipment	Land and leasehold improvements	Computer hardware	Total
Cost						
December 31, 2019		128.9	29.7	39.1	14.2	211.9
Additions		18.9	1.4	0.3	0.4	21.0
Disposals		(2.8)	(0.1)	—	(0.1)	(3.0)
Asset impairments		—	(0.6)	—	—	(0.6)
Foreign currency translation		7.5	0.8	0.7	0.5	9.5
December 31, 2020		152.5	31.2	40.1	15.0	238.8
Additions		4.6	0.2	—	0.7	5.5
Disposals		(0.8)	(0.1)	—	—	(0.9)
Assets recognized upon acquisition	23	0.1	0.1	—	—	0.2
Foreign currency translation		(0.7)	(0.1)	0.1	(0.2)	(0.9)
March 31, 2021		155.7	31.3	40.2	15.5	242.7
Accumulated depreciation						
December 31, 2019		(104.3)	(16.4)	(14.8)	(9.6)	(145.1)
Depreciation		(23.6)	(4.2)	(6.3)	(1.6)	(35.7)
Disposals		2.8	0.2	—	0.1	3.1
Asset Impairments		—	0.1	—	—	0.1
Foreign currency translation		(5.5)	(1.2)	(0.7)	(0.4)	(7.8)
December 31, 2020		(130.6)	(21.5)	(21.8)	(11.5)	(185.4)
Depreciation		(6.0)	(1.0)	(1.6)	(0.4)	(9.0)
Asset retirements		0.6	—	—	—	0.6
Foreign currency translation		0.9	(0.3)	(0.1)	0.1	0.6
March 31, 2021		(135.1)	(22.8)	(23.5)	(11.8)	(193.2)
Net carrying amount						
December 31, 2020		21.9	9.7	18.3	3.5	53.4
March 31, 2021		20.6	8.5	16.7	3.7	49.5

At March 31, 2021, the Company assessed tangible assets for any indication of impairment. Impairment losses are recorded when the carrying amount of the asset exceeds its recoverable amount. The recoverable amount was based on the asset's value in use. For the three months ended March 31, 2021, the Company recorded no impairment losses (2020 - nil).

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Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2021 and March 31, 2020

12. Intangible assets

(US\$ millions)	Note	Brands - indefinite	Trademarks, licenses, intellectual properties & customer lists - definite	Content development	Computer software	Total
Cost						
December 31, 2019		115.7	51.7	164.5	25.9	357.8
Additions		—	1.2	50.6	5.9	57.7
Disposals		—	—	—	(0.2)	(0.2)
Asset impairments		—	—	(0.4)	—	(0.4)
Assets recognized upon acquisition		—	2.4	—	—	2.4
Foreign currency translation		1.8	(0.5)	9.5	1.1	11.9
December 31, 2020		117.5	54.8	224.2	32.7	429.2
Additions		—	—	9.7	0.3	10.0
Asset impairments		—	—	(0.9)	—	(0.9)
Assets recognized upon acquisition	23	37.4	0.7	—	—	38.1
Foreign currency translation		0.4	—	2.1	0.4	2.9
March 31, 2021		155.3	55.5	235.1	33.4	479.3
Accumulated amortization						
December 31, 2019		—	(18.5)	(136.7)	(20.2)	(175.4)
Amortization		—	(7.7)	(41.7)	(4.6)	(54.0)
Disposal		—	—	—	0.2	0.2
Foreign currency translation		—	—	(7.2)	(0.8)	(8.0)
December 31, 2020		—	(26.2)	(185.6)	(25.4)	(237.2)
Amortization		—	(1.9)	(8.1)	(0.9)	(10.9)
Foreign currency translation		—	—	(2.9)	(0.3)	(3.2)
March 31, 2021		—	(28.1)	(196.6)	(26.6)	(251.3)
Net carrying amount						
December 31, 2020		117.5	28.6	38.6	7.3	192.0
March 31, 2021		155.3	27.4	38.5	6.8	228.0

Intangible assets recognized upon acquisition include \$37.4 million for brand and \$0.7 million for customer relationships relating to the acquisition of Rubik's described in Note 23. The balance will be assessed for impairment within its own brand CGU.

The Company has capitalized content development costs for an entertainment production with a carrying amount of \$18.8 million at March 31, 2021 (December 31, 2020 - \$16.9 million). Amortization of these costs will begin once the content has been delivered and will be amortized over an estimated 2 year period.

At March 31, 2021, the Company assessed intangible assets for any indication of impairment. Impairment losses are recorded when the carrying amount of the asset exceeds its recoverable amount. The Company recorded an impairment loss of \$0.9 million for the three months ended March 31, 2021 related to certain terminated content development projects (2020 - nil).

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13. Goodwill

(US\$ millions)	Mar 31, 2021	Dec 31, 2020
Balance, beginning of period	138.0	138.8
Assets recognized upon acquisition during the period	22.6	—
Measurement period purchase price adjustments - Orbee3	—	(0.7)
Proceeds from sale during the period	—	(0.3)
Foreign currency translation	0.5	0.2
Balance, end of period	161.1	138.0

Additions during the period include \$22.6 million relating to the business acquisition of Rubik's described in Note 23. The balance will be assessed for impairment within its own brand CGU.

At March 31, 2021, the Company assessed goodwill for any indication of impairment. There have been no impairment losses recognized with respect to goodwill for the three months ended March 31, 2021 (2020 - nil).

14. Trade payables and accrued liabilities

(US\$ millions)	Mar 31, 2021	Dec 31, 2020
Trade payables	130.1	161.4
Accrued liabilities	116.2	153.0
Trade payables and accrued liabilities	246.3	314.4

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

15. Contract liabilities

Contract liabilities are comprised of advances on contracts relating to entertainment and licensing revenue, which arise as a result of consideration received in advance of the Company fulfilling its obligations. As at March 31, 2021, the Company had contract liabilities of \$16.4 million (December 31, 2020 - \$25.3 million).

During the three months ended March 31, 2021, the Company recognized revenue of \$0.8 million previously deferred in contract liabilities (2020 - \$1.8 million). There was no revenue recognized that related to performance obligations from a prior year.

16. Loans and borrowings

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 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

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16. Loans and borrowings (continued)

As at March 31, 2021, the Company had utilized \$0.4 million (December 31, 2020 - \$0.4 million) of the Facility: \$0.4 million (December 31, 2020 - \$0.4 million) drawn in letters of credit and nil (December 31, 2020 - nil) drawn in LIBOR Loans.

During the first quarter of 2020, the Company borrowed a total of \$350.0 million under its credit facility, to maximize liquidity and increase available cash on hand. The Company repaid \$50.0 million and \$300.0 million in the second and third quarters of 2020, respectively.

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 March 31, 2021.

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

Unsecured Debt

Bank Overdraft Facility

- (iii) The Company has an uncommitted Overdraft Facility Agreement (the "European Facility") for €15.0 million (\$17.6 million US\$). The European Facility will be used to fund working capital requirements in Europe. As at March 31, 2021, the outstanding balance was nil (December 31, 2020 - nil).

17. Provisions and contingent liabilities

(US\$ millions)	Mar 31, 2021	Dec 31, 2020
Defectives (i)	10.6	13.0
Supplier liabilities (ii)	4.5	5.6
Contingent consideration, acquisitions (iii)	14.0	15.8
Provisions and contingent liabilities	29.1	34.4
Current	24.0	29.2
Non-current	5.1	5.2
Provisions and contingent liabilities	29.1	34.4

17. Provisions and contingent liabilities (*continued*)

Provisions

- (i) Defectives occur when the end consumer returns faulty goods to the Company's customers. Customers without a fixed allowance for defectives are eligible for a credit for the cost of the product if returned as defective by the end consumer. The estimate of defectives is made based on the class and nature of the product and reduces the net sales figure on the condensed consolidated interim statements of earnings and comprehensive income.
- (ii) Supplier liabilities represent the estimated compensation to be paid to suppliers for lower than expected volumes purchased, resulting in the supplier having excess raw material and finished goods inventory. While payments are not legally required, the Company will regularly compensate suppliers to maintain supplier relationships. The supplier obligation is based on the Company's estimate of the cost of the supplier's excess raw material and finished goods inventory. The provision for supplier obligations is recorded in Cost of Sales on the condensed consolidated interim statements of earnings and comprehensive income.
- (iii) Certain business combinations include a royalty payable. The fair value of the total contingent consideration on March 31, 2021 was \$14.0 million (December 31, 2020 - \$15.8 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 earnings and comprehensive income.

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

18. Share capital

(a) *Authorized as at March 31, 2021 and December 31, 2020*

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

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

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

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

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

Spin Master Corp.

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18. Share capital (continued)

	Three Months Ended Mar 31 2021		Year Ended Dec 31 2020	
	Shares (millions)	Amount (US\$ millions)	Shares (millions)	Amount (US\$ millions)
<u>Multiple voting shares:</u>				
Balance, beginning of period	70.6	360.5	70.6	360.5
Balance, end of period	70.6	360.5	70.6	360.5
<u>Subordinate voting shares:</u>				
Balance, beginning of period	31.4	364.3	31.6	354.0
Issuance of subordinate voting shares	0.3	7.2	0.2	11.4
Cancellation of subordinate voting shares	—	—	(0.1)	(1.1)
Forfeiture of subordinate voting shares	—	—	(0.3)	—
Balance, end of period	31.7	371.5	31.4	364.3
Shares issued and outstanding, end of period	102.3	732.0	102.0	724.8

As at March 31, 2021, the Company does not hold any of its outstanding shares (2020 - nil).

(b) Share-based plans

Participation arrangements

The Company had equity participation arrangements ("Participation Arrangements") with six senior employees and four former employees pursuant to which all were entitled to receive a cash payment and shares on the Initial 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 March 31, 2021, 151,993 (December 31, 2020 - 151,993) subordinate voting shares were outstanding relating to the Participation Arrangements with a weighted average grant date fair value of \$2.1 million (December 31, 2020 - \$2.1 million) based on the weighted average of the contractual life remaining of 4 months.

Share based compensation expense of \$0.1 million (2020 - \$1.0 million) relating to Participation Arrangements is recorded in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the three months ended March 31, 2021.

Long-Term Incentive Plan

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

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18. Share capital (*continued*)

The Company settled vested LTIP grants during the three months ended March 31, 2021 through the issuance of shares. The settlements resulted in a transfer of \$7.2 million (2020 - \$2.1 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 March 31, 2021 and December 31, 2020.

	Mar 31, 2021	Dec 31, 2020
(number of units)		
Outstanding, beginning of period	1,745,045	713,908
Granted	603,999	1,418,898
Exercised	(274,491)	(260,854)
Forfeited	(41,566)	(126,907)
Outstanding, end of period	2,032,987	1,745,045

Included in the above table are grants of 1,105,425 PSUs to certain key employees during the three months ended March 31, 2021 (December 31, 2020 - 918,929).

Share based compensation expense of \$3.0 million (2020 - \$2.2 million) relating to RSUs and PSUs is recorded in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the three months ended March 31, 2021 with corresponding entries recorded in contributed surplus.

Deferred Share Units ("DSUs")

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

	Mar 31, 2021	Dec 31, 2020
(number of units)		
Outstanding, beginning of period	121,771	78,311
Granted	8,223	43,460
Outstanding, end of period	129,994	121,771

Share based compensation expense of \$0.2 million (2020 - \$0.1 million) with a mark to market expense of \$0.6 million (2020 - gain of \$1.4 million) relating to DSUs is recorded in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the three months ended March 31, 2021. A corresponding amount was recorded in accrued liabilities.

Share Purchase Options ("Options")

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

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

Share based compensation expense of \$0.1 million (2020 - \$0.4 million) relating to Options is recorded in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the three months ended March 31, 2021.

Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2021 and March 31, 2020

18. Share capital (continued)

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

(US\$ millions)	Three Months Ended Mar 31	
	2021	2020
Equity-settled RSUs and PSUs	3.0	2.2
Equity-settled Participation Arrangement transactions	0.1	1.0
Share purchase options	0.1	0.4
Share based compensation expense	3.2	3.6

Share based compensation expense of \$3.2 million (2020 - \$3.6 million) is recorded in administrative expenses in the condensed consolidated interim statements of earnings and comprehensive income for the three months ended March 31, 2021. A corresponding amount was recorded in contributed surplus.

19. Earnings per share

	Three Months Ended Mar 31			
	2021		2020	
(Number of shares in millions)	Weighted average number of shares	Per share amount (US\$)	Weighted average number of shares	Per share amount (US\$)
Basic	102.1	0.03	102.2	(0.26)
Diluted	104.4	0.03	103.0	(0.26)

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.

20. Net changes in non-cash working capital

(US\$ millions)	Three Months Ended Mar 31	
	2021	2020
Decrease (increase) in:		
Trade receivables	78.6	168.6
Other receivables	(1.5)	2.2
Inventories	0.1	29.4
Prepaid expenses	0.7	7.3
	77.9	207.5
(Decrease) increase in:		
Trade payables and accrued liabilities	(69.9)	(143.7)
Contract liabilities	(9.0)	(3.0)
Provisions and contingent liabilities	(11.2)	(5.4)
Other	(0.2)	(16.1)
	(90.3)	(168.2)
Total net changes in non-cash working capital	(12.4)	39.3

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Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2021 and March 31, 2020

21. Leases

Amounts recognized in the balance sheet

Leased office buildings represented approximately 89.1% of the right-of-use assets with the remainder comprised of leases of distribution centres, information technology ("IT") equipment, and vehicles.

The Company has categorized leases of office buildings and distribution centres as "Building" and IT equipment and vehicles as "Equipment". The weighted average lease term is 11 years. The carrying value of right-of-use assets and depreciation by class of underlying assets at March 31, 2021 are as follows:

(US\$ millions)	Building	Equipment	Right-of-use Assets
January 1, 2020	75.4	2.9	78.3
Additions	0.7	0.4	1.1
Disposals	(0.1)	—	(0.1)
Depreciation and amortization	(12.0)	(1.3)	(13.3)
Foreign currency translation	1.0	—	1.0
December 31, 2020	65.0	2.0	67.0
Additions	—	0.1	0.1
Modifications	6.8	—	6.8
Depreciation and amortization	(2.9)	(0.3)	(3.2)
Foreign currency translation	(0.1)	—	(0.1)
March 31, 2021	68.8	1.8	70.6

21. Leases (continued)

(US\$ millions)	Lease Liabilities
January 1, 2020	82.7
Additions	1.1
Disposals	(0.1)
Accretion	4.6
Lease payments	(15.2)
Foreign currency translation	1.3
December 31, 2020	74.4
Additions	0.1
Modifications	6.8
Accretion	1.1
Lease payments	(4.8)
Foreign currency translation	0.1
March 31, 2021	77.7

(US\$ millions)	Mar 31, 2021	Dec 31, 2020
Lease Liabilities, current	15.5	15.4
Lease Liabilities, non-current	62.2	59.0
Total Lease Liabilities	77.7	74.4

22. Commitments for expenditures

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

Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2021 and March 31, 2020

23. Business acquisitions

Acquisition of Rubik's Brand Limited

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

The total purchase consideration of \$55.2 million is comprised of \$51.4 million of cash consideration plus \$3.8 million related to the estimated fair value of future royalties. The total purchase consideration has been allocated to the identifiable intangible assets based on their estimated fair values of \$38.1 million (related to brands and customer relationships), \$22.6 million of goodwill, \$6.5 million of tangible assets and assumed liabilities of \$12.0 million.

The Company incurred transaction related costs of \$0.9 million. These costs were recorded in administrative expenses in the consolidated statement of earnings and comprehensive income for the year ended December 31, 2020.

Assets acquired and liabilities recognized at the date of acquisition

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

Goodwill arising on acquisition

Cash consideration	52.6
Purchase price adjustment (receivable at March 31, 2021)	(1.2)
Present value of future royalties	3.8
Total purchase consideration	55.2
Fair value of identifiable net assets acquired	32.6
Goodwill arising from transaction	22.6

Net cash outflow on acquisition

Cash consideration	52.6
Less: cash balance acquired	1.1
Total net cash outflow	51.5
Less: advance paid in 2020	3.0
Net cash outflow for the three months ended March 31, 2021	48.5

Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2021 and March 31, 2020

23. Business acquisitions (*continued*)

Trade receivables acquired of \$4.1 million have a fair value of \$4.0 million. This balance is expected to be collected at the time of acquisition.

Goodwill arose on the acquisition of Rubik's as the consideration paid effectively included amounts for the benefit of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets. As at the date of acquisition, \$22.6 million of goodwill is expected to be deductible for income tax purposes and is being amortized for tax purposes over 15 years.

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

Impact of acquisition on the results of the Company

Included in the Company's financial results for the three months ended March 31, 2021 is \$3.3 million in revenue attributable to Rubik's.

24. Financial instruments and risk management

Fair value measurements

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

(US\$ millions)	Mar 31, 2021	Dec 31, 2020
Financial assets		
Cash	262.3	320.6
Trade receivables	185.2	265.2
Other receivables	78.6	73.4
Financial assets	526.1	659.2
Financial liabilities		
Trade payables and accrued liabilities	246.3	314.4
Provisions and contingent liabilities	29.1	34.4
Financial liabilities	275.4	348.8

The Company records foreign exchange forward contracts at fair value in the financial statements.

The fair value of foreign exchange forward contracts at March 31, 2021 represented an asset of \$3.7 million, which is recorded in other receivables and a liability of \$2.2 million recorded in accrued liabilities (December 31, 2020 - an asset of \$3.7 million and a liability of \$7.2 million). Derivative fair values are categorized within Level 2 of the fair value hierarchy. Fair values reflect the credit risk of the instrument for the Company and counterparty when appropriate. The fair value of foreign exchange contracts is estimated based on forward exchange rates observable at the end of the reporting period and contract forward rates. Realized and unrealized gains and losses on derivative financial instruments may be offset by realized and unrealized losses and gains on the underlying exposures being hedged and are recorded in earnings as they occur.

The fair value of the investment in a limited partnership as at March 31, 2021 is recorded in other assets at \$3.9 million (2020 - \$3.0 million) with a net unrealized gain of \$0.9 million recorded in other income in the condensed consolidated interim statement of earnings and comprehensive income for the three months ended March 31, 2021 (2020 - nil). This fair value is categorized within Level 3 of the fair value hierarchy. The fair value of the investment in a limited partnership is estimated using various valuations techniques through the partnership based the type of investment held by the fund. The quantitative unobservable inputs used in the fair value measurement are not developed by the Company.

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24. Financial instruments and risk management (continued)

Foreign currency risk

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

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

As at March 31, 2021, the Company is committed under outstanding foreign exchange contracts representing a total net purchase commitment of approximately \$41.6 million in US\$ (December 31, 2020 - \$11.3 million). These foreign exchange contracts have maturity dates varying from April 2021 to June 2022. As at March 31, 2021, realized losses on the Company's matured hedges were \$1.9 million (2020 - realized gains of \$1.2 million) and is included in the condensed consolidated in statement of earnings and comprehensive income.

As at March 31, 2021 (in millions)	Notional value: foreign currency	Notional value: US\$	Unrealized gain (loss): US\$
Foreign exchange contracts			
Buy US\$	51.1 EUR	(65.4)	0.5
Buy US\$	27.9 GBP	(37.0)	(1.5)
Buy US\$	270.0 MXN	(12.2)	(0.7)
Sell US\$	(95.8) CAD	73.1	3.2
Total		(41.5)	1.5

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

25. Segment information

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

- (i) Activities, games & puzzles and plush
- (ii) Preschool and girls
- (iii) Boys
- (iv) Outdoor

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

The North American segment is comprised of the United States and Canada. The European segment is comprised of the United Kingdom, France, Italy, the Netherlands, Germany, Austria, Switzerland, Belgium, Luxembourg, Slovakia, Hungary, Romania, Czech Republic, Poland, Turkey, Russia and Greece. The Rest of World segment is primarily comprised of Hong Kong, China, Vietnam, India, Australia, New Zealand, Japan and Mexico, as well as all other areas of the world serviced by the Company's distribution network.

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25. Segment information (continued)

Segment revenue and results

The Company's gross product sales and results from operations by reportable segment are as follows:

(US\$ millions)	2021	2020
Revenue by segment		
North America	170.6	144.6
Europe	89.1	73.5
Rest of World	35.0	24.2
Gross product sales	294.7	242.3
Sales allowances	(39.1)	(36.9)
Net sales	255.6	205.4
Other revenue	61.0	21.9
Revenue	316.6	227.3
Segment income (loss) before tax (recovery) expense		
North America	3.5	(42.9)
Europe	0.6	(13.5)
Rest of World	0.1	(14.4)
Total segment income before tax (recovery) expense	4.2	(70.8)
Corporate and other	—	(4.1)
Income before income tax (recovery) expense	4.2	(74.9)

Revenues for North America include revenues attributable to Canada of \$43.7 million (2020 - \$23.9 million) for the three months ended March 31, 2021.

Revenue reported by segment above represents revenue generated from external customers. There were no inter-segment sales in the current year (2020 - nil). The Company does not include sales adjustments such as trade discounts and other allowances in reporting revenue by segment (referred to as "gross product sales").

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

Segment assets

(US\$ millions)	Mar 31, 2021	Dec 31, 2020
North America	904.2	971.4
Europe	228.7	217.6
Rest of World	100.5	111.3
Total segment assets	1,233.4	1,300.3
Corporate and other	33.8	41.8
Total assets	1,267.2	1,342.1

Spin Master Corp.

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25. Segment information (continued)

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

(US\$ millions)	Mar 31, 2021	Dec 31, 2020
North America	408.9	426.4
Europe	85.2	33.2
Rest of World	26.5	19.9
Total segment non-current assets	520.6	479.5
Corporate and other	91.7	73.3
Total non-current assets	612.3	552.8

Non-current assets for North America include assets attributable to Canada of \$138.6 million as at March 31, 2021 (December 31, 2020 - \$130.8 million).

Segment liabilities

(US\$ millions)	Mar 31, 2021	Dec 31, 2020
North America	341.6	410.7
Europe	70.1	84.9
Rest of World	38.0	39.4
Total segment liabilities	449.7	535.0
Corporate and other	(35.9)	(35.8)
Total liabilities	413.8	499.2

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

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

Capital expenditures by reportable segment

(US\$ millions)	2021	2020
North America	10.8	17.0
Europe	2.6	1.5
Rest of World	2.1	0.5
Total capital expenditures	15.5	19.0

Depreciation and amortization by reportable segment

(US\$ millions)	2021	2020
North America	18.0	18.4
Europe	3.0	2.7
Rest of World	1.3	1.2
Total segment depreciation and amortization	22.3	22.3
Corporate and other	0.8	1.0
Total depreciation and amortization	23.1	23.3

Impairment losses of \$0.9 million were recognized in respect of property, plant and equipment, intangible assets, right-of-use assets and goodwill for the three months ended March 31, 2021 (2020 - nil).

Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three months ended March 31, 2021 and March 31, 2020

25. Segment information (*continued*)

Revenue from major product categories

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

(US\$ millions)	Three Months Ended Mar 31,	
	2021	2020
Activities, games & puzzles and plush	87.5	80.1
Preschool and girls	97.2	73.1
Boys	68.0	60.7
Outdoor	42.0	28.4
Gross product sales	294.7	242.3
Sales allowances	(39.1)	(36.9)
Net sales	255.6	205.4
Entertainment and Licensing revenue	26.9	15.0
Digital games revenue	34.1	6.9
Revenue	316.6	227.3

Major customers

Sales to the Company's three largest customers accounted for 45.9% (2020 - 43.0%) of gross product sales for the three months ended March 31, 2021, respectively. Other than the top three customers, which have remained the same year over year, no other single customer contributed 10% or more to gross product sales for the three months ended March 31, 2021 (2020 - nil).

(US\$ millions)	2021	2020
Gross product sales		
Customer 1	51.1	47.2
Customer 2	50.9	38.3
Customer 3	33.4	18.7
Total	135.4	104.2

26. Subsequent event

Subsequent to March 31, 2021, the Company acquired certain assets from a product invention and development company and in conjunction with this acquisition, the employees and principals of the company became employees of Spin Master. These employees will complement the Company's toy innovation and development capabilities. The total consideration including deferred consideration is approximately \$22.0 million. Given the timing of the transaction and measurement with final purchase agreement consideration adjustments, the purchase price allocation is not yet final. The purchase price allocation will be disclosed in the Company's second quarter 2021 condensed consolidated interim financial statements.

There were \$0.2 million in transaction related costs included in administrative expenses in the condensed consolidated interim statement of earnings and comprehensive income for the three months ended March 31, 2021.

27. Prior year comparatives

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