# SPIN MASTER CORP.

# 2019 ANNUAL INFORMATION FORM

**March 20, 2020**

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## MEANING OF CERTAIN REFERENCES

Spin Master Corp. (the "**Company**" or "**Spin Master**") presents its consolidated financial statements in United States dollars. In this Annual Information Form, all references to "$" are to United States dollars and all references to "C$" are to Canadian dollars. Disclosure in this Annual Information Form is made as at December 31, 2019 unless otherwise indicated. Certain terms used in this Annual Information Form are defined under "Glossary".

## TRADEMARKS, TRADE NAMES AND SERVICE MARKS

This Annual Information Form includes trademarks, such as Spin Master™, which are protected under applicable intellectual property ("**IP**") laws and are the property of, or licensed for use by, the Company. Solely for convenience, the Company's trademarks and trade names referred to in this Annual Information Form may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that Spin Master will not assert, to the fullest extent under applicable law, its rights or the right of the applicable licensor to these trademarks and trade names.

## FORWARD-LOOKING STATEMENTS

Certain statements, other than statements of historical fact, contained in this Annual Information Form constitute "forward-looking information" within the meaning of certain securities laws, including the *Securities Act* (Ontario), and are based on expectations, estimates and projections as of the date on which the statements are made in this Annual Information Form. Forward-looking statements include, without limitation, statements of the Company with respect to: the anticipated impact of the spread of COVID-19, and global measures to contain it, on the Company; industry trends, overall market growth rates and the Company's growth rates; expectations regarding revenue, expenses and operations; measures of the Company's operating performance and financial condition; the business plans and strategies, including development and acquisition opportunities and product re-launches; intentions with respect to, and the ability to execute, its growth strategies; new brands and brand expansions; expansions into new categories; securing additional broader and more significant licenses from third parties; international sales and expansion of international offices and operations; the ability of the Company to leverage its global platform; the number, features and timing of launching new products, brands and entertainment properties; the assessment of supplier's manufacturing capacity and downstream supply of raw materials and component parts; relationships with inventors and with entertainment industry participants; relationships with employees; competitive position in the industry; anticipated trends and challenges in the Company's business and the markets in which it operates; the Company's exposure to liability in legal proceedings; protection of the Company's IP rights; dividends; the effects of any non-compliance with government regulations; and the exercise of certain shareholder rights.

The words "plans", "expects", "estimated", "anticipates", "intend", "focus", "outlook", "potential", "seek", "strategy", "vision", "goal", "targets" or "believes", or variations of such words and phrases or statements that certain future conditions, actions, events or results "will", "may", "could", "would", "should", "might" or "can", or negative versions thereof, "be taken", "occur", "continue" or "be achieved", and other similar expressions, frequently identify forward-looking statements.

Forward-looking statements are necessarily based upon management's perceptions of historical trends, current conditions and expected future developments, as well as a number of specific factors and assumptions that, while considered reasonable by management as of the date on which the statements are made in this Annual Information Form, are inherently subject to significant business, economic and competitive uncertainties and contingencies which could result in the forward-looking statements ultimately being incorrect. In addition to any factors and assumptions set forth in this Annual Information Form, the material factors and assumptions used to develop the forward-looking information include, but are not limited to: the expanded use of advanced technology, robotics and innovation the Company applies to its products will have a level of success consistent with its past experiences; the Company will continue to successfully secure broader licenses from third parties for major entertainment properties consistent with past practices; the expansion of sales and marketing offices in new markets will increase the sales of products in that territory; the Company will be able to successfully identify and integrate strategic acquisition opportunities; the Company will be able to maintain its distribution capabilities; the Company will be able to recognize and capitalize on opportunities earlier than its competitors; the Company will be able to continue to build and maintain strong, collaborative relationships; the Company will maintain its status as a preferred collaborator; the culture and business structure of the Company will support its growth; the current business strategies of the Company will continue to be desirable on an international platform; the Company will be able to expand its portfolio of owned branded IP and successfully license it to third parties; use of advanced technology and robotics in the Company's products will expand; access of entertainment content on mobile platforms will expand; fragmentation of the market will continue to create acquisition opportunities; the Company will be able to maintain its relationships with its employees, suppliers and retailers; the Company will continue to attract qualified personnel to support its development requirements; the Company founders will continue to be involved in the Company; and that the risk factors noted below, collectively, do not have a material impact on the Company.

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct, and that objectives, strategic goals and priorities will not be achieved. Known and unknown risk factors, many of which are beyond the control of the Company, could cause actual results to differ materially from the forward-looking information in this Annual Information Form. Such factors include, without limitation, risks relating to the following, which are discussed in greater detail in the "Risk Factors" section of this Annual Information Form: creation of original products, brands and entertainment properties; industry competition; failure to market or advertise products; seasonality; failure to protect or enforce the Company's IP rights; failure of third-party owners to maintain or enforce IP licenses; the Company's growth strategy; dependence on third-party manufacturers, distributors, distribution centres and logistics service providers; disruptions in manufacturing operations or supply chain, or in the business where the Company's products are sold, due to public health pandemic or other public health crises; sales concentration with retailers; general economic conditions; relationships with inventors and entertainment content collaborators; failure to leverage the Company's portfolio of franchises across entertainment and media platforms; entertainment industry conditions; international sales growth strategy; new and emerging markets; dependence on the Company's key personnel; product recalls, repairs, product liability claims and the absence or cost of insurance; production and sale of private-label toys; litigation; failure to implement new initiatives or meet product introduction schedules; delivery of raw materials, parts and components from suppliers or increase in the price of supplies; failure to realize the full benefit of the Company's licenses; operating procedures and product requirements; negative publicity and product reviews; future acquisitions, mergers or dispositions; system of internal controls; tax and regulatory compliance; currency exchange rates; laws and government regulations; failure of information technology; electronic data compromises; failure to stay competitive amongst an increasing array of technology and entertainment offerings; the increase in technologically advanced or sophisticated digital and smart technology products; natural disasters or other catastrophic events; website system failures; and interest rates and the availability of credit. These risk factors are not intended to represent a complete list of the factors that could affect the Company and investors are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements.

There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements are provided for the purpose of providing information about management's expectations and plans relating to the future. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, or to explain any material difference between subsequent actual events and such forward-looking statements, except to the extent required by applicable law. All forward-looking statements in this Annual Information Form are qualified by these cautionary statements.

## NON-IFRS FINANCIAL MEASURES

In addition to using financial measures prescribed under International Financial Reporting Standards ("**IFRS**"), references are made herein to "EBITDA", "Adjusted EBITDA", "Free Cash Flow", "Gross Product Sales" and "Sales Allowances", which are non-IFRS financial measures. Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

EBITDA is calculated as net (loss) earnings before finance costs, income tax expense and depreciation and amortization.

Adjusted EBITDA is calculated as EBITDA excluding adjustments that do not necessarily reflect the Company's underlying financial performance. These adjustments include restructuring expenses, foreign exchange gains or losses, equity-settled share based compensation expenses, impairment of intangible assets, fair market value adjustments to acquired inventories, acquisition related incentive compensation, legal settlement, transaction costs, royalty recovery and bad debt expense. Adjusted EBITDA is used by management as a measure of the Company's profitability.

Free Cash Flow is calculated as cash flows provided by/used in operating activities before changes in net working capital and after cash flows used in investing activities before cash used in license, brand and business acquisitions. Management uses the Free Cash Flow metric to analyze the cash flow being generated by the Company's business.

Gross Product Sales represent sales of the Company's products to customers, excluding the impact of Sales Allowances. As Sales Allowances are generally not associated with individual products, the Company uses changes in Gross Product Sales to provide meaningful comparisons across product category and geographical segment results to highlight trends in Spin Master's business.

Sales Allowances represent marketing and sales credits requested by customers relating to factors such as cooperative advertising, contractual discounts, negotiated discounts, customer audits, volume rebates, defective products and costs incurred by customers to sell the Company's products and are recorded as a reduction to Gross Product Sales. Management uses Sales Allowances to identify and compare the cost of doing business with individual retailers, different geographic markets and amongst various distribution channels.

Management believes that the non-IFRS measures defined above are important supplemental measures of operating performance and highlight trends in the core business that may not otherwise be apparent when relying solely on IFRS financial measures. Management believes that these measures allow for assessment of the Company's operating performance and financial condition on a basis that is more consistent and comparable between reporting periods. The Company believes that lenders, securities analysts, investors and other interested parties frequently use these non-IFRS financial measures in the evaluation of issuers.

For a reconciliation of such non-IFRS measures to IFRS measures (where a comparable IFRS measure exists), refer to the section entitled "Non-IFRS Financial Measures" in the Company's Management Discussion and Analysis for the financial year ended December 31, 2019, which section is incorporated by reference herein.

## THE COMPANY

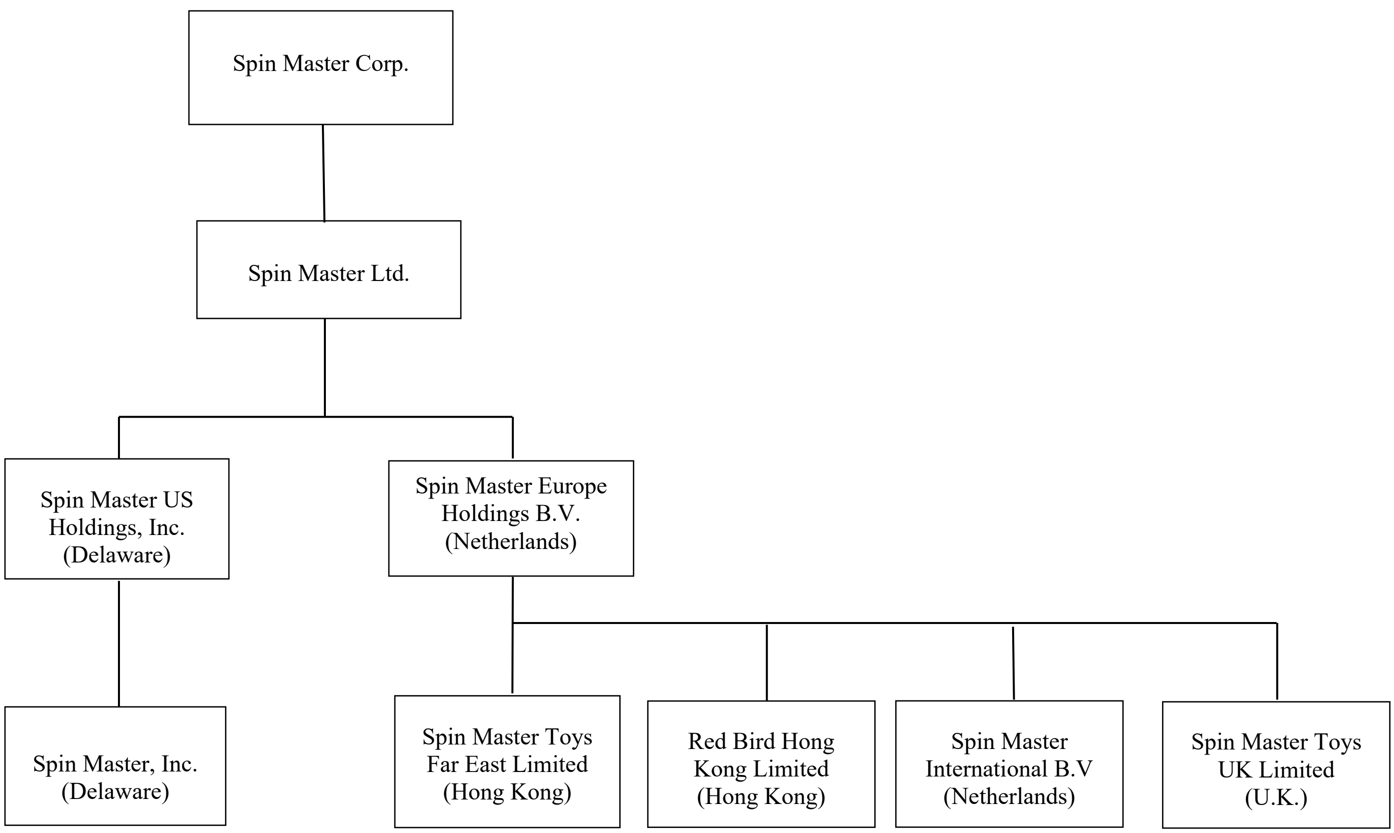
### Incorporation and Office Address

The Company resulted from the amalgamation of Spin Master Corp. (formerly SML Investments Inc.), SML Investments 2008 Inc. and Varadi Bee Corp. pursuant to the filing of articles of amalgamation under the *Business Corporations Act* (Ontario) (the "**OBCA**") on July 29, 2015. Articles of amendment were subsequently filed on July 29, 2015 to provide for the governing of the Company as a publicly-traded reporting issuer under applicable Canadian securities laws and on May 30, 2016 to increase the minimum number of directors of the Company from three (3) to seven (7). The predecessor corporation Spin Master Corp. (formerly SML Investments Inc.) was incorporated on June 9, 2004 under the OBCA, SML Investments 2008 Inc. was incorporated on April 21, 2008 under the OBCA, and Varadi Bee Corp. was incorporated on April 22, 2008 under the OBCA.

The head and registered office of the Company is located at 225 King Street West, Toronto, Ontario M5V 3M2.

### Intercorporate Relationships

The following organizational chart indicates the intercorporate relationships of the Company, as well as its material and certain other subsidiary entities. It does not include all of the Company's subsidiaries. The assets and revenues of excluded subsidiaries did not, individually, exceed 10 percent, or, in the aggregate, exceed 20 percent, of the consolidated assets or consolidated revenues of the Company as at December 31, 2019. The ownership of each entity in the chart below is 100% and, except as otherwise noted, the jurisdiction of incorporation or formation of each such entity is Ontario:



## BUSINESS OF THE COMPANY

### General Development of the Business

Spin Master was founded in 1994 by two childhood friends, Ronnen Harary and Anton Rabie, shortly after graduation from university. Ben Varadi, a university classmate of Anton's joined the Company subsequently in 1994.

When Spin Master began to chart its course in the children's entertainment industry, the founders recognized that in order to compete successfully with the established brands of the larger incumbent companies, the Company had to design and market innovative products that would "wow" consumers and disrupt the traditional toy market. With the inspiration of its founders, who remain actively engaged in the business as executive officers, Spin Master has maintained a deeply-rooted culture of creativity, partnership and passion.

Spin Master has achieved significant growth over the past 26 years, transforming itself from a small, single-product toy company into a leading global, diversified, multi-platform and highly innovative children's entertainment company.

On July 30, 2015, the Company completed its initial public offering of Subordinate Voting Shares of the Company (the "**IPO**") of 12,225,000 Subordinate Voting Shares at a price of C$18.00 per Subordinate Voting Share and the Subordinate Voting Shares were listed and commenced trading on the Toronto Stock Exchange (the "**TSX**") under the symbol "TOY". On July 30, 2015, pursuant to a reorganization transaction completed in connection with the Company's IPO, each of Messrs. Ronnen Harary, Anton Rabie and Ben Varadi (collectively, the "**Principal Shareholders**") became the beneficial owners of Multiple Voting Shares of the Company upon exchange of their prior holdings in the Company and its predecessors. The ownership, transfer and conversion of the Multiple Voting Shares by the Principal Shareholders and their respective rights in certain governance matters are governed by an agreement among the Principal Shareholders and their respective affiliates that own Voting Shares, and the Company (the "**Principal Shareholders Agreement**"). See "Material Contracts – Principal Shareholders Agreement".

Over the three most recently completed financial years, the Company has increased its revenue from approximately $1,551.4 million in 2017 to approximately $1,581.6 million in 2019. Over the same period, Gross Product Sales have increased from approximately $1,657.1 to $1,691.2 a 10.5% compound annual growth rate.

*Year Ended December 31, 2017*

On February 17, 2017, the Company won three American Toy Industry Association "Toy of the Year" ("**TOTY**") awards: "Innovative Toy of the Year" for Hatchimals, "License of the Year" for PAW Patrol and "Vehicle of the Year" for Air Hogs Star Wars X-wing vs Death Star, Rebel Assault.

On April 28, 2017, the Company filed a final short-form base shelf prospectus, allowing the Company to offer and issue the following securities: (i) Subordinate Voting Shares; (ii) preferred shares; (iii) senior or subordinated unsecured debt securities; (iv) subscription receipts; (v) warrants; and (vi) securities comprised of more than one of the Subordinate Voting Shares, preferred shares, debt securities, subscription receipts and / or warrants offered together as a unit. These securities may be offered separately or together, in separate series, in amounts, at prices and on terms to be set forth in one or more shelf prospectus supplements. The aggregate initial offering price of securities that could be sold by the Company (or certain of the Company's shareholders, including the Principal Shareholders) pursuant to this base shelf prospectus during the 25-month period that the base shelf prospectus, including any amendments thereto, remains valid was limited to C$600 million.

On May 1, 2017, the Company acquired certain assets of Marbles Holdings LLC ("**Marbles**"), a manufacturer of brain-building and high-quality games, through a court approved bankruptcy sale process.

On June 22, 2017, the Company launched its *Hatchimals* and *PAW Patrol* brands in China.

On July 27, 2017, the Company entered into a 10-year licensing partnership with Feld Entertainment Inc. to be the worldwide master toy partner for *Monster Jam* beginning in 2019.

On July 28, 2017, the Company acquired certain assets of Aerobie Inc. ("**Aerobie**"), a producer of outdoor flying disks and sports toys.

On September 15, 2017, effective after the close of trading, the Company was added to the S&P/TSX Composite Index.

On October 2, 2017, the Company announced the opening of an office in Warsaw, Poland to oversee sales and marketing activities in Poland, Czech Republic, Slovakia, Hungary and Romania.

On December 1, 2017, the Company acquired the *Perplexus* brand from KID Group LLC, Busy Life LLC and other individuals. The Company had previously been a distributor of the *Perplexus* brand.

The Company entered into numerous toy license agreements in 2017 for entertainment and licensing properties including: *Monster Jam, JoJo Siwa, LOL Surprise, Fingerlings, Jumanji* and *Harry Potter*, as well as renews for: *Disney, Nickelodeon, Ferrari* and *Marvel.* The Company also entered into numerous licenses with publishers including: HarperCollins, Simon & Schuster, Random House and Hachette.

The Company launched a number of new products in 2017. These included: *Luvabella*, *Hatchimals Surprise*, *Hatchimals Colleggtibles*, *Moonlite*, *Wobbly Worm*, *Soggy Doggy*, *Etch a Sketch Junior Joystick*, *Etch a Sketch Freestyle*, *Air Hogs Robo Trax*, *Air Hogs* racing drones under the DR1 license, and a product line associated with the Rube Goldberg license. The Company also expanded on its Meccano robots to include *Meccano M.A.X. Robot* and *Meccano MeccaSpider* and also added *Zoomer Show Pony* and the *Zoomer Zupps* to its *Zoomer* product line. A new compound, *Kinetic Rock*, was added under the *Kinetic* brand. The Company relaunched the Doctor Dreadful product line. The Company also launched new licensed toys based on the following television and movie properties: Pirates of the Caribbean, Star Wars, Teletubbies, Mashsa and the Bear and The Powerpuff Girls.

The Company launched season 4 of *PAW Patrol* as well as new products including the *PAW Patrol Sea Patroller* and the *PAW Patrol Life Sized Lookout Tower*, and did a limited launch of the toy line associated with the first season of *Rusty Rivets* exclusively with Toys "R" Us with products such as the *Rusty Rivets Botasaur* and the *Rusty Rivets Rivets Lab Playset*.

The Company was nominated for nine TOTY awards for its 2017 product line across the following categories: "Preschool Toy of the Year", "Collectible of the Year", "Doll of the Year", "Construction Toy of the Year", "License of the Year", "Game of the Year" and "Vehicle of the Year".

*Year Ended December 31, 2018*

On January 1, 2018, the Company acquired the *Fuggler* brand, a unique line of collectible plush dolls.

On February 16, 2018, the Company won three TOTY awards: "Game of the Year" for *Soggy Dog*, "Vehicle of the Year" for *PAW Patrol Sea Patroller* and "Preschool Toy of the Year" for *PAW Patrol My Size Lookout Tower*.

On April 1, 2018, the Company acquired certain assets relating to the *Gund* line of business from Enesco LLC for $77 million. *Gund* is a manufacturer and distributor of plush toys and is best known for its line of teddy bears. Established in 1898, *Gund* has a 120-year history as a market leader and toy industry pioneer widely known for its high quality and innovative design. Headquartered in Edison, New Jersey, *Gund* distributes product throughout the United States, Canada, Europe, Japan, Australia and South America. The acquisition will allow Spin Master to build a stable platform for expansion into the infant toy and specialty gift categories and further grow the business internationally. The purchase consideration was funded from internally generated cash resources and the Company's existing credit facility.

On April 10, 2018, the Company's global brand, *PAW Patrol*, won the Fast and Furious Award from Tmall, the online marketplace of the Alibaba Group, the world's largest online and mobile commerce company.

On July 10, 2018, the Company announced the opening of an office in Moscow, Russia to begin selling directly to retailers in Russia, and that the Company will begin selling directly to retailers in Switzerland, Austria and Greece.

On September 28, 2018, the Company entered into a strategic cooperation agreement with the Alibaba Group in China. The strategic cooperation is committed to creating a leading digital platform for retail, brand building, and data-powered marketing, demonstrating a mutual confidence and recognition of Spin Master's global potential in China.

On December 20, 2018, the Company announced the relaunch of the *Bakugan* franchise, with the launch of a newly-evolved anime series, innovative toy line, card game and mobile app. The children's anime adventure series, "*Bakugan: Battle Planet*", launched in North America on Cartoon Network and combines the essence of Japanese-anime with progressive computer-generated animation. The series will be available in 2019 in Europe, Middle East, Africa, Latin America, Australia and New Zealand, and on Teletoon in Canada.

On December 21, 2018, the Company entered into a three-year global licensing agreement with Warner Bros. Consumer Products. Beginning Spring 2020, Spin Master will be a new toy licensee for DC Comics in the boy's action category, remote control and robotic vehicles, water toys and games and puzzles.

The Company entered into numerous toy license agreements in 2018 for entertainment and licensing properties including: *Batman/DC Universe*, *Friends*, *Pink Fong*, *Ghost Busters*, *Bob Ross*, *Line Friends*, *Buddy Boo*, *JoJo Siwa*, *Ducati*, *Eric Carle*, *Dorling Kindersley*, *Dinosaur Roar*, and *Disney* properties (*Frozen* foam furniture).

The Company launched a number of new products in 2018. These included: *Air Hogs Super Nova*, *Hatchimals Hatchibabies*, *Zoomer Playful Pup*, *Twisty Petz*, *Kumi Kreator*, the *PAW Patrol Sub-patroller*, and the *PAW Patrol Ultimate Fire Truck*. The new interactive robot buddy, *Boxer*, was also introduced in 2018. The Company relaunched the *Bakugan* property. The Company also launched new licensed games and puzzles based on the following movie properties: Jumanji and Avengers: Infinity War.

The Company was nominated for seven TOTY awards for its 2018 product line across the following categories: "License of the Year", "Collectible Toy of the Year", "Vehicle Toy of the Year", "Creative Toy of the Year", "Plush of the Year", and "Specialty Toy of the Year".

*Year Ended December 31, 2019*

On January 1, 2019, the Company's new original animated preschool series, *Abby Hatcher*, premiered on Nickelodeon and will roll out on Nickelodeon's international channels and launch on TVO in Canada in 2019.

On February 16, 2019, the Company won two TOTY awards: "Vehicle Toy of the Year" for *PAW Patrol Ultimate Rescue Fire Truck*, and "Creative Toy of the Year" for *Cool Maker KumiKreator*.

On February 18, 2019, the Company announced that Silvergate Media, an international children's studio and brand licensing company, signed *Gund* as the first licensing partner for its award-winning new Netflix animated adventure television series, *Hilda*.

On March 28, 2019, the Company won three Canadian Screen Awards, presented by the Academy of Canadian Cinema & Television, for its global hit preschool show PAW Patrol, in the *Best Animated Program or Series*, *Best Sound - Animation* and *Best Original Music - Animation* categories.

On April 26, 2019, the Company entered into a three-year license agreement, in the U.S. and Canada, with Big Potato Games, an independent board games company based in the United Kingdom ("**U.K.**").

On July 29, 2019, the Company entered into an agreement to become the global master toy licensee with Universal Brand Development for DreamWorks Animation's all-new preschool series *Gabby's Dollhouse* which is expected to debut globally on Netflix in 2020. With an anticipated launch in 2021, Spin Master's toy line is expected to include playsets, figures, plush, games and puzzles.

On August 12, 2019, the Company acquired the international IP for the game *Hedbanz*. Spin Master originally acquired the rights for the U.S. and Mexico in 2011 and *Hedbanz*, the quick question game of "What Am I", has become one of the most successful titles within Spin Master's portfolio of games. The acquisition secures Spin Master the global IP, and ability to sell, market and license for further penetration into markets presently under license, as well as expansion into new territories.

On December 6, 2019, the Company acquired the award-winning *Orbeez* brand as an addition to the Activities segment with opportunities for integration into Spin Master's existing product lines, as well as for further innovation.

The Company entered into numerous toy license agreements in 2019 for entertainment and licensing properties including: Universal's *Gabby's Dollhouse*, Silvergate Media's *Hilda*, *Rubik's* in addition to renewals with: Disney, Nickelodeon, Universal and Warner Brothers.

The Company launched a number of new products in 2019. These included: *Bakugan*, *Monster Jam Mega Grave Digger RC*, *Owleez*, *How To Train Your Dragon Hatching Toothless*, *Cool Maker GO GLAM Nail Stamper* and *Juno My Baby Elephant*. In addition, the Company launched season 6 of *PAW Patrol* as well as new products including the *PAW Patrol Mighty Pups Super Paws Lookout Tower Playset* and the *Super Paws, 2-in-1 Transforming Mighty Pups Jet Command Center*.

The Company was nominated for seven TOTY awards for its 2019 product line across the following categories: "License of the Year", "Action Figure of the Year", "Vehicle Toy of the Year", "Creative Toy of the Year", "Doll of the Year", "Construction Toy of the Year" and "Preschool Toy of the Year".

*Since Year Ended December 31, 2019*

The Company received two awards from the U.K.'s Toy Industry Awards presented by the British Toy & Hobby Association (the "**BTHA**") and the Toy Retailers Association. Spin Master was named Global Supplier of the Year and *PAW Patrol®* Pre-School Range of the Year for a second year in a row. Additionally, the BTHA named Spin Master's newly launched DC toy *Batman® 12-inch Deluxe Figure with Rapid Change Utility Belt* as one of the 'Toy Fair Heroes', selected by an independent panel of industry judges and the BTHA.

On February 11, 2020, the Company and Netflix announced a new original animated preschool series *Mighty Express*™ which is expected to debut on Netflix in September 2020.

On February 21, 2020, the Company announced a *PAW Patrol* major motion picture animated feature film in association with Nickelodeon Movies, which will be distributed by Paramount Pictures and is targeted for release in August 2021.

Spin Master is currently experiencing uncertainty related to the rapidly developing COVID-19 situation. It is anticipated that the spread of COVID-19 and global measures to contain it, will have an impact on the Company, however it is challenging to quantify the potential magnitude of such impact at this time. The Company is regularly assessing the situation and remains in contact with its customers and suppliers to assess any impacts and risks. Spin Master is experiencing significant current market disruptions and heightened uncertainty caused by the spread of COVID-19 in global customer markets.

**Overview of Business**

Spin Master is a leading global children's entertainment company that creates, designs, manufactures, licenses and markets a diversified portfolio of innovative toys, games, products, digital toys and entertainment franchises. The Company is driven by a desire to challenge and expand traditional play patterns through the creation of innovative products and entertainment content.

Spin Master is driven by its ability to identify and successfully develop and acquire new products, create and license entertainment characters and content, collaborate with industry participants and its consistent focus on innovation across the entire business. The Company's achievements in developing successful and innovative products have been well recognized.

Spin Master has an established track record of developing and applying unique and proprietary technology to differentiate its products. One of the Company's first successes, *Air Hogs*, revolutionized the flying toy category. The ongoing success of this brand has helped establish an in-house expertise in technology-based toys, which Spin Master seeks to apply across all of its business units. The Company's in-house development capabilities provide technical and creative expertise, and are augmented by the capabilities of a broad, external global network of third-party inventors and designers. These capabilities have been applied in the development of many brands including the 2017 TOTY winner for "Innovative Toy of the Year", *Hatchimals*; *Luvabella,* awarded the "Best Toys of 2017" by Parents magazine; and the 2019 TOTY winner for "Creative Toy of the Year", *Cook Maker KumiKreator*.

Spin Master not only develops and produces global entertainment properties, characters and content, but also monetizes that content through the creation and sale of products and licensing of content to third parties. Since the 2007 launch of the *Bakugan* television series, which became a global entertainment and toy success, Spin Master has produced eleven television series, comprising over 800 episodes. The Company currently has various children's series and short form content being aired on television and various digital platforms including: *PAW Patrol*, *Rusty Rivets*, *Super Dinosaur*, *Hatchimals*, *Bakugan: Armored Alliance*, *Abby Hatcher, Dragamonz, Zo Zo Zombie* and *Toca Life*.

Spin Master has strategically invested and focused in all areas of content consumption, which includes the mobile digital presence with Toca Boca and Sago Mini. For years, the Company has been studying play patterns which have been converging between physical brands, entertainment franchises, and mobile digital platforms. Children are increasingly accessing and consuming entertainment content on mobile devices. The acquisition of Toca Boca and Sago Mini in 2016 provided Spin Master with a strong brand presence in the digital mobile space and has allowed the Company to develop a leadership position in the children's mobile app and direct to-consumer space.

**Competitive Strengths**

The Company believes that its competitive strengths will enable it to continue to succeed in the children's entertainment industry.

*Significant Scale and Global Reach*

Spin Master is a leading company in the U.S. and global toy industry. Spin Master sells its products in over 100 countries and has offices in many major markets, including the U.S., Canada, Mexico, the U.K., France, Germany, Slovakia, the Netherlands, Italy, India, Poland, Sweden, Russia, China, Hong Kong, Australia, Japan and Vietnam. Spin Master is a significant and valued partner for major toy retailers, inventors, entertainment companies and suppliers. The Company's global scale and reach has increased the market potential of its products and are attractive attributes to potential collaborators.

Spin Master's scale and international infrastructure, combined with its diversified product capabilities, represent a valuable asset when competing for new product opportunities and licenses. The Company's broad international scale provides access to a large network of inventors, product developers and smaller regional toy companies thereby increasing its access to new ideas and opportunities. Similarly, these potential collaborators recognize the benefits of Spin Master's global reach as it results in increased shelf space, enhancing the sales potential for their products. Spin Master has used these attributes to help develop strong relationships with major entertainment companies and management believes the Company's proven distribution capabilities and strong relationships with these companies will allow Spin Master to successfully compete against larger industry participants for future entertainment licenses.

The breadth and diversity of Spin Master's portfolio provides the ability to effectively utilize its various development and marketing resources, advanced technologies and other capabilities across all of its products, brands and entertainment properties. Spin Master's scale also provides advantages in sourcing and supply chain management and provides operating leverage as its fixed costs can be spread across a larger portfolio of products.

*Global, Collaborative Business Model*

Spin Master's success in building strong, collaborative relationships is a key part of its culture that extends into all aspects of the Company's business and which management believes is a competitive strength. The Company's founders think globally and are open to all forms of collaboration. Since its inception, the Company, through the relentless efforts of its founders, has built a diverse network of collaborators around the world. In addition to toy inventors and designers, this network includes major entertainment studios, local and international broadcasters, engineering companies with unique technical expertise, animation studios, writers, broadcasters, directors, game developers and other toy companies. Management believes a great deal of Spin Master's growth and success can be attributed to the benefits derived from the deep relationships that the Company has established and nurtured over time.

Many of Spin Master's key relationships exist in the inventor community, which is comprised of several hundred professional creators and product developers around the world who are responsible for many new product ideas. Spin Master's proactive approach to building strong relationships with inventors has been integral to the Company's product selection and development process. The Company has a demonstrated track record of collaborating with inventors to efficiently select new product concepts and bring them to market quickly and profitably. Since inception, Spin Master's executives have fostered deep, collaborative, personal relationships with the inventor community, working together with them to engineer and enhance the design of products to perform better and meet targeted costs. The inventor community recognizes that Spin Master's technical skills and marketing capabilities are attractive attributes, which management believes often allows the Company to view ideas and concepts earlier and commercialize products ahead of its competition. See "Business of the Company – Inventors".

Spin Master's history of creating breakthrough, category-defining products with global appeal, as well as its scale and scope to meet the needs of key retailers, have enabled the Company to build strong, enduring relationships with mass-market retailers such as Target and Walmart, assisting it to secure prominent shelf space.

Spin Master has the vision to create its own entertainment properties and the Company's founders, along with several key executives, have spent years cultivating relationships with the studios, creators, writers, producers, directors and broadcasters of children's entertainment content. The Company's strength in entertainment is anchored in its own creative team (internal producers and toy designers) who work in tandem with external creative resources (for example, animation studios and writers) to brainstorm the creative elements that will work both for the animated series and related products.

Spin Master believes that its emphasis on integrity with inventors, retailers, consumers and the entertainment community, in combination with its desire to innovate, its entrepreneurial culture and its speed to market, have made the Company a preferred collaborator.

*Proven Product Development, Execution and Marketing*

Spin Master has a strong capability to identify the commercial potential of an idea, at an early stage of development and believes that great ideas can come from many sources. The Company has a bias toward finding solutions to potential hurdles rather than for finding reasons to walk away. This attribute led to the early development of the *Air Hogs* and *Bakugan* brands and more recently, the *Zoomer* and *Hatchimals* brands.

The Company benefits from a streamlined decision making process. Within the Company's dedicated global business unit ("**Global Business Unit**") structure, the product selection process has been simplified as Global Business Unit leaders, who are category experts, have a large degree of autonomy over their own product pipeline. Once a decision is made to commercialize a product idea, Spin Master has the ability to very quickly conduct all the required steps to bring that product to market.

Spin Master understands that even the most innovative and unique products must be available to the consumer at a price which demonstrates value. The Company combines in-house and external expertise in designing, engineering and manufacturing products that provide a high-quality play experience at a price point that strives to demonstrate real value to the consumer. The Company also leverages these resources to accelerate the time period from concept selection to finished product release to the market.

Spin Master pursues innovative, fully integrated marketing campaigns to build awareness, create excitement and deliver strong sell-through for its products, brands and entertainment properties. The centres of excellence in marketing, including shopper and trade marketing, digital and linear media, ecommerce, experiential, influencer, public relations and social, work directly with the Global Business Units to develop plans for key items both on an evergreen basis and during key marketing events. These plans have a clearly defined focus with engaging and compelling creative content for distribution across multiple touchpoints and channels to maximize and optimize exposure and conversion with the target consumer.

*Diversified Portfolio of Innovative Brands and Products*

Spin Master markets a diversified range of children's products, brands and entertainment properties that appeal to a variety of age groups. In 2019, Spin Master's product offering included over 9,700 unique SKUs across more than 130 product lines. Over the last several years, Spin Master has continuously diversified its portfolio through the addition of original products and expansion into new categories. See "Business of the Company – Overview of Business Segments". In addition, Spin Master's capabilities in advanced technologies and robotics, as well as the development of entertainment and digital properties, provide further diversification within each of the Company's business segments. Spin Master's diverse product offerings reduce the Company's dependence on any single revenue stream, thereby improving the stability of its overall revenues and earnings.

*Global R&D Network with Leading Capabilities in Advanced Technologies and Robotics*

Spin Master has built a deep global network of research & development ("**R&D**") resources comprised of product designers, engineers and technicians. The Company has established R&D centres in Los Angeles, Toronto, Hong Kong, Dongguan, China, and Tokyo, Japan, each with advanced design capabilities and engineering teams that have mechatronic and design expertise to support the Company's ongoing robotic and animatronic development. The Company's *Air Hogs* design centers in Toronto and Dongguan, China are focused on aerospace and control system engineering. The Company's Los Angeles engineers focus on enhancing and supporting the digital to physical development cycle and products based on the science, technology, engineering and mathematics ("**STEM**") curriculum. The Company's Hong Kong and Japan offices support high-tech design and product development. Current areas of emphasis for Spin Master include the application of advanced technologies including voice-recognition, animatronic technology, visual and computer recognition, low energy Bluetooth, and first person video, combined with mechatronic disciplines and system architecture. Together with Spin Master's internal R&D resources, the Company works closely with a global network of third-party inventors, R&D facilities, model shops and software and hardware designers.

The focus of Spin Master's global R&D network is to incorporate advanced technologies and evolving play patterns into products that can be commercialized at affordable price points. The Company's global R&D network serves as a resource to all of its Global Business Units, assisting each segment in the application of new and emerging technologies and play patterns to increase the value of the Company's brands and products.

*A Proven and Growing Global Entertainment Property Pipeline*

Through its in-house capabilities and global relationships with content creators, writers, studios and entertainment companies, Spin Master develops entertainment properties, characters and content. The Company also has the ability to sell the content it develops through established relationships with North American and global broadcasters. Spin Master's success in developing and selling original content has increased the number of new content pitches to the Company from third-party content creators. Spin Master ascribes much of its success in creating strong original characters and content to its unique ability to have its toy designers collaborate at all stages of content development with the writers, directors and animators on the shape, design, look and feel of both characters and objects appearing in the production.

To date, Spin Master has produced eleven television series, with multiple seasons comprising over 800 episodes. The Company currently has various series being aired on television and digital platforms: *PAW Patrol*, *Rusty Rivets*, *Super Dinosaur*, *Bakugan: Armored Alliance*, and *Abby Hatcher*. *PAW Patrol* launched on Nickelodeon in 2013 and has since been broadcast in over 160 countries and territories, airing on TVO and over 60 times a week on Nickelodeon and Nick Jr. *Rusty Rivets* was launched on Nickelodeon in November 2016 and is also aired on Nick Jr. and Treehouse. *Super Dinosaur* launched on Teletoon in September 2018. *Abby Hatcher* premiered on Nickelodeon in December 2018 and on TVO February 2019. *Bakugan: Armored Alliance* was released on Teletoon February 2020. Alongside these full-length television series, the Company also produces short form content featuring the brands *Hatchimals*, *Dragamonz*, *Zo Zo Zombie* and *Toca Life*. *Hatchimals* premiered on YouTube in November 2018. *Dragamonz* launched on Amazon Prime in September 2019. *Zo Zo Zombie* will launch on Amazon Prime, Crave, CrunchyRoll, ROKU, and Tubi in March 2020. *Toca Life Stories* premiered on YouTube in February 2020. And lastly, Spin Master announced their newest animated series *Mighty Express* is set to start airing on Netflix in September 2020 and a feature length animated film *PAW Patrol: The Movie* is set to be released in theatres in August 2021.

The Company's growing portfolio of owned character-based IP consisting of new and original content can be commercialized through toy products and licensed to third parties for use in other product categories. Products with owned character IP generally carry higher margins and benefit from the consumer awareness and enthusiasm driven by the popularity of the broadcast content. Spin Master is among a limited number of companies that develops and produces entertainment properties, characters and content and monetizes that content directly through the sale of products. Spin Master has also established an in-house capability to license its content to third parties for merchandising of products beyond the Company's scope.

*Experienced and Entrepreneurial Management Team*

Spin Master has assembled an executive management team that combines the entrepreneurial creativity, drive, toy industry experience and relationships of its founders with the management capabilities of seasoned executives. Spin Master's founders, who remain actively engaged in the business as executive officers, have had the benefit of working in and understanding every aspect of the Company's operations and growth over its 26-year history. Spin Master's management team is encouraged to challenge the status quo and major decisions are debated by the entire group, with a goal of obtaining quick decisions. Through the combined efforts of this executive management team, Spin Master has generated significant growth and has created a culture and business structure that is expected to support continued growth.

*Strong Financial Performance*

Over the three most recently completed financial years, the Company has increased its revenue from approximately $1,551.4 million in 2017 to approximately $1,581.6 million in 2019. Over the same period, Gross Product Sales have increased from approximately $1,657.1 million to $1,691.2 million, a 10.5% compound annual growth rate.

Spin Master outsources substantially all the manufacturing, warehousing and transportation of its products to third parties, thereby reducing its capital expenditure requirements and allowing Spin Master to generate significant Free Cash Flow (approximately $84.6 million in 2019). Capital expenditures have averaged 4.9% of revenue over the last three years. The Company's strong cash flow provides the flexibility to continue to invest in product development and other growth initiatives, including acquisitions.

Adjusted EBITDA, Gross Product Sales, and Free Cash Flow are non-IFRS measures. See "Non-IFRS Financial Measures".

## Growth Strategies

Spin Master is targeting growth at a rate faster than the children's entertainment industry as a whole. The following are the four principal strategies the Company is using to drive continued long-term growth and value creation:

*Innovate Using the Company's Global Internal and External R&D Network*

Innovation is at the core of Spin Master's success and will continue to be a significant contributor to the Company's future growth. Each of Spin Master's Global Business Units leverages internal resources and the Company's long-standing relationships with developers and inventors to maintain a robust pipeline of new product ideas and product enhancements. Spin Master is committed to continued investment in the entire product development process, from ideation through development, testing and ultimately execution. The Company continuously researches and evaluates opportunities to expand its presence in existing categories and to create or enter new categories. Spin Master is focused on being first to market and on continually enhancing the appeal of its products. In order to drive growth in each of its current business segments, Spin Master is focused on leveraging its product development capabilities.

Spin Master's organic growth is supported by its robust pipeline. Spin Master has developed a number of key processes to manage its pipeline and enhance revenue predictability. These processes include:

- Quarterly review of the Company's 36-month brand innovation pipeline: Senior executives conduct a detailed review of the pipeline on a quarterly basis during which each Global Business Unit outlines its new product developments and / or license agreements. Global Business Units are held accountable for tracking and managing current and future revenue. The process empowers the senior executives to manage revenue predictability and allocate resources across the Global Business Units to support the most exciting growth opportunities and ensure growth is measured and balanced across the portfolio.

- Development milestones: Spin Master establishes milestone checkpoints on new product development projects. Monthly approvals are implemented to ensure projects remain on time and within budget.

- Enhanced forecasting processes: Cross-functional meetings between sales, operations, finance and marketing teams are held to improve forecasting accuracy, both short-term and long-term.

- Industry analytics: Spin Master performs detailed analytics to support new product concepts. Analytics teams actively monitor toy industry trends and statistics to improve forecasting accuracy.

Spin Master expects the innovation and expansion of its current business segments to be driven by the following three initiatives:

*(i) Continue to Invest in Advanced Technology and Robotics*

Spin Master will expand the Company's current business segments by leveraging its network of internal and external resources in the application of advanced technology and robotics to its products. The Company believes that the application of programmable, voice-recognition, mimicking and interactive technologies can dramatically increase the appeal of its products and potentially extend the age range of its consumers. Spin Master has identified interactive learning-based play as an attractive growth area. As a demonstration of the results of this strategy, Spin Master has enjoyed significant success with the *Meccano* brand and more recently with the launch of *Hatchimals* and *Luvabella*. See "Business of the Company – Overview of Business Segments". Spin Master believes there is significant potential to continue to expand the use of advanced technology and robotics in its products, including further extensions of the *Zoomer* and *Hatchimals* brands, additional products based on popular entertainment characters and continued expansion of its *Meccano* construction line. Spin Master believes it is well positioned for continued growth and market leadership.

*(ii) Strategically Acquire Entertainment Licenses to Build Out Product Pipeline*

Spin Master intends to grow its current business segments by developing and successfully launching a number of innovative toy products based on content licensed from major entertainment studios. Leveraging its historical focus on developing relationships with larger entertainment companies, the Company seeks to secure broader and more significant licenses from third parties for major entertainment properties. Spin Master believes its leading capabilities in advanced technology and robotics, broad product range, international distribution footprint and strong relationships with leading licensors, positions the Company to secure additional licenses that will drive new revenue opportunities.

*(iii) Cross Platform Exploitation of Toys and Mobile Gaming*

Children are increasingly accessing entertainment content on mobile platforms such as smart phones and tablets. Spin Master's in-house game development division, Spin Master Studios Inc. ("**SMS**"), based in Los Angeles, is comprised of a number of seasoned executives who have experience at either console-based gaming companies or app development studios. SMS is focused on refining and developing this mobile gaming platform. The Company consistently has discussions with other entertainment content companies regarding games and toys that can be developed around the mobile gaming platform using other established entertainment properties and the Company's owned character-based IP. In 2016, Spin Master acquired the Toca Boca and Sago Mini companies from the Bonnier Group of Sweden. With offices in Stockholm and San Francisco, Toca Boca is a play studio that makes mobile apps for children aged 6+. Located in Toronto, Sago Mini creates mobile apps for children aged 2-5 that focus on the pre-school segment. Both Toca Boca and Sago Mini apps combined have more than 70 titles, 350 million downloads, 20 million monthly active users and 120 thousand active subscribers worldwide.

*Increase Sales in International Developing and Emerging Markets*

The Company sells its products in over 100 countries and has offices in many major international markets, including the U.S., Canada, Mexico, the U.K., France, Germany, Slovakia, the Netherlands, Italy, India, Poland, Sweden, Russia, China, Hong Kong, Australia, Vietnam and Japan. In 2019, Spin Master's Gross Product Sales outside of North America accounted for approximately \$664.9 million or 39.3% of the Company's total Gross Product Sales. In order to increase sales in international developing and emerging markets, Spin Master intends to employ a number of key strategies including: selectively adding sales and marketing personnel in the Company's international sales and marketing offices; establishing Company-owned sales and marketing offices in certain strategic markets where it currently has a distributor relationship; building third-party distributor networks in markets where Spin Master does not currently have an established presence; expanding the number of products it launches in international markets; strategically timing the launch of products internationally, such that they are either launched in parallel with their launch in North America to benefit from marketing and fixed cost investments or lagged in order to extend the product's life cycle and incorporate market data into the international launch; and creating and customizing specific products to address the local demands of international markets.

These activities are intended to increase the Company's penetration in international markets and increase Spin Master's annual Gross Product Sales.

*Develop Evergreen Global Entertainment & Digital Toy Franchises*

Spin Master appreciates that great storytelling and compelling content are essential to creating successful entertainment properties. Creation and ownership of entertainment properties, characters and content provides the Company with greater control and flexibility and the ability to leverage overall brand development to help build brand equity and optimize the timing of product launches. This control and flexibility has the potential to lead to higher growth rates, higher margins and greater diversification. Management believes that expanding its portfolio of owned character IP will support stable revenue growth and enhanced profitability over time.

Spin Master creates, develops, produces and places its original content globally in conjunction with writers, production and entertainment companies and networks. The Company is focused on creating highly engaging content, creating products based on such content and synchronizing retail initiatives with the broadcast of that content to drive product sales globally.

Spin Master intends to continue to execute on its strategy of creating and owning engaging properties with tie-ins to retail initiatives like toys and other products to drive sales and build a library of content. Spin Master has a deep pipeline of new properties at various stages of development which are intended for global broadcast. It is the Company's intention to launch at least one new entertainment property per year, targeting the Boys, Pre-School and Girls markets.

Spin Master believes that re-launching retired properties from its existing library represents an attractive opportunity for future growth. Re-launched brands have lower development costs, a proven track record of performance and higher acceptance from retail buyers. In particular, in its original launch *Bakugan* generated over \$800 million in cumulative Gross Product Sales for Spin Master (including approximately \$69 million in associated third-party merchandising revenue). Spin Master believes there is significant value in the *Bakugan* brand, characters and game play and the Company relaunched the brand in December 2018 with a children's anime adventure series, "*Bakugan: Battle Planet*" in North America on Cartoon Network. Spin Master further extended the *Bakugan* experience with the launch a new integrated toy line and trading card game in January 2019 at major retailers. Part of Spin Master's strategy is to work with major studios to extend some of its properties or brands into feature length films. The Company has an option agreement with a major movie studio in respect of *Bakugan*, which would be the first movie release for *Bakugan*.

Spin Master has strategically invested and focused in all areas of content consumption, which includes the mobile digital presence with Toca Boca and Sago Mini. For years, the Company has been studying play patterns which have been converging between physical brands, entertainment franchises, and mobile digital platforms. Children are increasingly accessing and consuming entertainment content on mobile devices. The acquisition of Toca Boca and Sago Mini in 2016 provided Spin Master with a strong brand presence in the digital mobile space and has allowed the Company to develop a leadership position in the children's mobile app and direct to-consumer space.

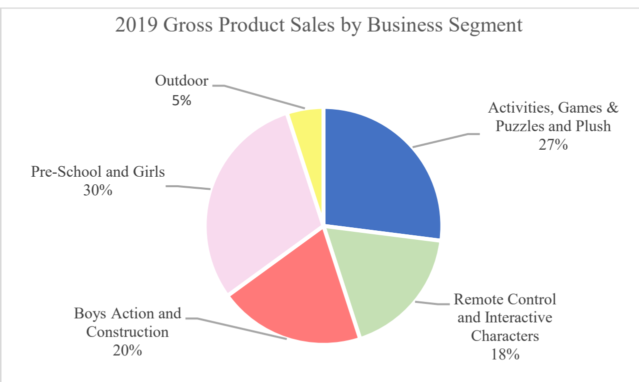
Spin Master also believes it can enhance revenue and profitability by licensing its owned character IP to third parties for use in various extensions beyond the Company's core operations (e.g., clothing, video games, food products and hard goods). By collaborating with other leading companies, Spin Master is able to expand and enhance the recognition and presence of its brands and increase the profitability with minimal associated costs. Spin Master is selective in its licensing activities, restricting them to complementary categories that support the Company's brands and products. As Spin Master expands its portfolio of owned character IP, it will continue to seek opportunities to license its properties to increase the Company's sales and profitability.

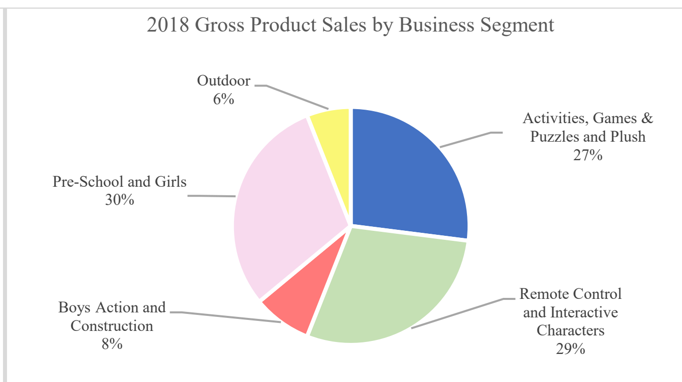
*Leverage Global Platform Through Strategic Acquisitions*

Management believes the global traditional toys and games industry is highly fragmented and Spin Master intends to leverage its relationships and history of dialogue with its network of industry participants and advisors to source and identify opportunities for acquisitions. The Company has demonstrated its ability to successfully identify, integrate and grow businesses that it acquires, including the acquisitions of Cardinal Industries Inc. ("**Cardinal**"), Toca Boca/Sago Mini, Swimways Corp. ("**Swimways**"), Aerobie, and Gund, and believes further acquisition opportunities will enhance Spin Master's overall growth and profitability. The Company believes that it has the financial flexibility, through its strong balance sheet and free cash flow generation, to continue to supplement its organic growth with strategic acquisitions.

**Overview of Business Segments**

Spin Master's diversified portfolio of innovative toys, games, products and entertainment properties is managed in ten Global Business Units and is reported under five product categories: (1) Activities, Games & Puzzles and Plush; (2) Remote Control and Interactive Characters; (3) Boys Action and Construction; (4) Pre-School and Girls; and (5) Outdoor.




*Activities, Games & Puzzles and Plush*

The Activities, Games & Puzzles and Plush product category generated $457.7 million of Gross Product Sales in 2019 ($455.5 million in 2018).

*Activities*

The Activities category has been a core focus of Spin Master since its inception. The Activities category thrives on new and innovative products and fits with the entrepreneurial spirit of the Company's founders. The Company's first product, the *Earth Buddy,* a nylon stocking-covered head of sawdust, topped with grass seeds which grew to emulate hair, was launched in the Activities category and was later followed by, among others: *Catch-a-Bubble*, which allowed children to catch and stack bubbles; *Aqua Doodle*, a Pre-School mess-free drawing activity kit that enabled children to draw using water; *Moon Sand*, a mouldable compound that combined sand with a chemical compound making it less messy, and the related *Kinetic Sand*, a mouldable sand / polymer product which is designed to look and feel like sand but does not stain, dry out or stick to surfaces; *Cool Baker,* a baking product that does not require ovens or heating, and the related *Sew Cool*, a threadless technology that allows the sewing of fabric with the mere application of pressure; and *Bunchems*, a concept developed by Spin Master which replicates the structure of natural burs, allowing the product to be joined together to create a near-infinite variety of shapes and designs. Spin Master believes that by establishing brands that cover multiple products, the Company is able to increase product recognition and minimize the effects of shorter life cycles typically found in the Activities category. The Activities category is a natural fit with Spin Master's culture of innovation and ability to recognize and act quickly to commercialize unique product opportunities.

The Activity category offers a wide range of innovative products that integrate fun, fashion, trends and popular culture, such as *Kinetic Sand* and *Cool Maker*, the line of innovate do it yourself sets including TOTY-nominated *GO GLAM Nail Stamper*. Spin Master expects to grow the Activity category through brand building, focusing and expanding on existing brands as well as supporting new promotional opportunities. *Meccano*, now *Erector* by *Meccano* in the U.S., empowers and inspires the next generation of budding builders and engineers. The heritage brand continues to drive an authentic building experience while also introducing new S.T.E.A.M. creation sets that allow endless building possibilities. Children will learn the fundamental principles of design, engineering and programming as they experiment with real components that bring your build to life. In addition, at the end of 2019 Spin Master acquired the award-winning *Orbeez* brand which further strengthens the Activities category.

In 2019, under the *Cool Maker* brand, after a successful 2018 introduction, evolved the *Kumi Kreator* with the launch of the *2 in 1 Kumi Kreator*, which can braid bracelets and necklaces. Also, under *Cool Maker* the *Go Glam Nail Stamper*, an innovative way to stamp and style your nails launched. The *Kinetic Sand* brand continued to expand with the addition of the *Sandisfying Set* which allows children to showcase their creations. *Etch A Sketch* launched an updated trace feature to the *Etch A Sketch Freestyle*. *Bunchems* introduced *Bendy Bunchems*, which provides a flexible wire to easily bend and shape creations.

*Games & Puzzles*

The Games & Puzzles category targets gamers of all ages, from children to families and adults. The portfolio includes a wide-ranging library of innovative, owned and licensed titles, adult and children's puzzles and classic games (i.e. chess, dominos), which have generally longer life cycles and stable, recurring revenues. Spin Master entered this category in 2010, when it acquired a portfolio of games from an Australian company, *Imagination Games*. The acquisition provided a platform for expansion and was later followed by the acquisitions / licenses of, among others: *Hedbanz, LOGO*, *Boom Boom Balloon*, Cardinal and Editrice Giochi SRL. The Company has a wide-ranging library of innovative, Company-owned game titles as well as Cardinal's product lines which includes adult and children's puzzles, classic games (e.g. chess, dominos), giant sized games and licensed titles (e.g. Uno, Othello). The Company's portfolio of games and puzzles consisted of over 500 titles and the Company continues to introduce new game designs and concepts. The Company expanded its games portfolio in 2017 with the acquisition of certain assets of Marbles, which consist of brain-building game titles, as well as the acquisition of *Perplexus*, a 3-D puzzle maze that the company has been distributing since 2013.

In 2019, Games and Puzzles carried forward titles including *Soggy Doggy*, *Hedbanz*, *Otrio* and *Perplexus*. The Company expanded *Hedbanz* with the addition of a new junior version and acquired the international Hedbanz IP and launched a new Hedbanz App. The *Perplexus* brand launched *Perplexus Light Speed*, an electronic version, and *Perplexus Minis*. In 2019 with newly acquired licenses, the Company expanded its line-up of games as it entered into a license agreement to distribute a line of millennial-focused games from Big Potato. In addition, the Company launched games developed for the slate of children's movie released in 2019, including *Frozen 2*, *Toy Story 4* and the *Lion King*. Spin Master will continue to launch new games and puzzles supported by strong license franchises, as well as focusing on the global expansion of its classic games portfolio and growing adult games business.

*Plush*

The Plush category represents a consistent revenue generator that uses licensed movies, video games and television images or characters in its product lines. In 2003, Spin Master collaborated with an Australian company to bring the *Flip Open Sofa* to North America, a snug child-sized foam loveseat that converted into a mattress. Following this success, Spin Master established a furniture division under the *Marshmallow* brand. *Marshmallow* is a leader in the children's furniture market and holds licenses from a large number of major entertainment companies to decorate its products with recognizable characters. In 2018, the Company acquired certain assets relating to the *Gund* line of business, a manufacturer and distributor of plush toys and is best known for its line of teddy bears. Established in 1898, *Gund* has a 120-year history as a market leader and toy industry pioneer widely known for its high quality and innovative design.

Spin Master continues to leverage its strong relationships with leading licensors to obtain new, desirable licenses for its existing furniture products as well as for new children's furniture product extensions. In 2019, Spin Master entered into licensing agreements with brands including *Line Friends* and *Hilda*, an animated adventure Netflix series. The Company also is license partners for *Sesame Street* and *Pusheen*.

In 2019, *Gund* launched a new campaign called 'Love Feels like a GUND' to drive excitement for both consumers and for retailers. Incorporating the #GottaGettaGund tagline, the campaign included new merchandising and digital/social marketing targeting new mothers which featured products including "*Flappy*" and modern baby products under the "*Baby Toothpick*" collection.

*Remote Control and Interactive Characters*

The Remote Control and Interactive Characters product category generated $299.3 million of Gross Product Sales in 2019 ($505.4 million in 2018).

*Remote Control*

The Remote Control category includes a wide range of land vehicles and flying toys. The product range emphasizes innovative, interactive and gravity-defying experiences. Using industry-leading advanced technology the products incorporates new forms of motion and control methods to deliver immersive and exciting experiences to consumers. Together, with strong licensing partners, the Company leverages technology and innovation, bringing new forms of motion to iconic brands in the most compelling ways.

Spin Master is constantly innovating and developing original products to preserve its market position in this category, including stunt planes, altitude sensing hovercraft, shielded helicopters, land to air vehicles, cars that can drive up walls and a stunt quad-copter. Recent innovations include the introduction of cameras, rocket launchers, unique control technologies such as Bluetooth, infrared and radio-frequency identification that enable vehicles and planes to be controlled through smartphones and tablets, and incorporating new forms of motion, control methods and immersive experiences through augmented reality and first-person view platforms.

The *Air Hogs* brand has revolutionized the flying toy category since the 1998 introduction of Spin Master's first *Air Hogs* branded product: the *Sky Shark*. *Air Hogs* has since expanded with the development of various categories of products intended to appeal to consumers across a broad age spectrum and skill level. Spin Master has been working on the development of high-quality drones priced for the mass market since 2015. Spin Master's category leadership, development capabilities, technically sophisticated products at a price which demonstrates value and its relationships with major entertainment companies has allowed the Company to obtain licenses associated with major theatrical releases including *Star Wars, Star Trek* and *Batman vs. Superman* in 2017. Spin Master's *Star Wars Air Hogs X-Wing vs. Death Star - Rebel Assault* won a TOTY award for "Vehicle of the Year" at the 2017 North American International Toy Fair in New York City.

In 2019, *Air Hogs* launched the *Upriser*, a motorcycle which performs wheelies on the ground and in the air, which is licensed as the *Ducati Panigale V4 Superbike*. In addition, *Owleez*, the Company's first interactive flying toy pet launched, and is the only interactive pet that can be nurtured and taught to fly using programming and sensors to create a flight experience without any controller.

*Interactive Characters*

The Interactive Characters product category is driven by innovation through the Company's robotics expertise that blends technology and compelling characters, bringing them to life for interactive and immersive experiences. The Company continues to expand this product category with new unboxing experiences and unique twists on classic play patterns. Spin Master developed the *Zoomer* brand of interactive characters in 2013 and was a natural fit with the Company's focus on innovation and the application of advanced technologies and robotics. Spin Master launched *Hatchimals* in 2016 which quickly became a global success and became one of the best-selling items in Spin Master's history. The *Hatchimals* brand continues to be a play pattern that the Company will continue to innovate and support the brand.

In 2019, the Company launched *Juno My Baby Elephant*, who has moving ears and a full-motion trunk that can pick up her accessories. In 2019, the Company launched *Hatchimals CollEGGtibles* mini figures with several new themes and segments, including the new *Mermals* and a line of micro plush with bonus access to the new *Hatchtopia* world-builder app.

*Boys Action and Construction*

The Boys Action and Construction product category generated $331.4 million of Gross Product Sales in 2019 ($133.1 million in 2018).

*Boys Action*

Spin Master's early success in the Boys Action category began with the 1999 introduction of *Flick Trix*, a line of 2.5" die-cast replica BMX finger bikes that were decorated with brands licensed from major participants in the BMX sport. Spin Master followed the success of *Flick Trix* with, among others: *Mighty Beanz*, a new approach to the Mexican Jumping Bean product that was modernized as one-inch plastic capsules inscribed with decals; *Tech Deck*, a line of miniature skateboard replicas called fingerboards, complete with moving wheels and actual board graphics; and Spin Master's greatest success to date in this category *Bakugan*, a collectible toy composed of a small ball that morphs into a character by way of magnetic trigger when rolled over a metal playing card. In collaboration with Sega and Nelvana, Spin Master also produced 186 episodes of the popular *Bakugan: Battle Brawlers* television show that aired globally between 2007 and 2010. Licensing of entertainment content is a key component of the Boys Action category and Spin Master has developed strong relationships with many of the major entertainment companies.

In December 2018, the *Bakugan* property relaunched with the anime adventure series "*Bakugan: Battle Planet*" in North America and was followed by the global launch through 2019. The *Bakugan* relaunch included an all-new television show, short-form content, with a multichannel content approach, encompassing television, SVOD, and YouTube, and a series of innovative *Core* and *Ultra Bakugan* balls. *Bakugan* is a fusion between action figures, transformation, gameplay, and collectability.

In 2019, the Company added two new licensed entertainment properties to the growing global Boys Action portfolio: *Monster Jam*, which includes die-cast vehicles and RC/Motorized vehicles; and "*How To Train Your Dragon 3*", which toy line features new characters, deep collectability and innovative technologies.

*Construction*

Building sets is one of the fastest growing toy categories in the U.S. Spin Master entered the Construction category through the August 2013 acquisition of *Meccano* (known as *Erector* in the U.S.). Spin Master's strategy for *Meccano* was to acquire the established platform and then revitalize the brand as the Company saw potential to leverage its expertise in advanced technology and robotics to add "electronics" and "software" to the firmly established "mechanical" engineering play experience to create a new segment of construction. This shift was intended to elevate *Meccano* to a new level of interactive learning-based play, creating a springboard for the next generation of high-tech innovators with technical, robotic products that fit within the STEM curriculums being introduced in schools around the world. The resulting line of robotic products, called *Meccano Tech*, is a unique fusion of mechanical, electronic and software engineering. The first product launched under the *Meccano Tech* product line, the *Meccanoid*, launched in the fall of 2015. The *Meccanoid* is a programmable four-foot tall robot made from *Meccano* parts that can be programmed either using a tablet or smartphone to trace intended movement or with a mimicking feature that allows the user to record their own voice, move *Meccanoid's* limbs and create a unique playback routine. The *Meccanoid* has the flexibility to use servos, construction parts and open source programming, and the ability to build a near-limitless number of other robotic shapes. The open source software allows users to play with the code as is or program new code. For younger consumers, there are easier ways to program the robot by pushing pre-set buttons, which enable the robot to replicate the child's movements and voice. Spin Master showcased the product at the 2015 Consumer Electronics Show, where it was voted "Last Gadget Standing". The *Meccanoid G15* was also recognized the TOTY award for "Innovative Toy of the Year" at the North American International Toy Fair in New York City in February 2016. The Company entered the education market with an updated version of the acclaimed and award-winning *Meccanoid* with a version that was developed with educational experts to meet the growing needs of STEM curriculums around the world.

In 2019, the Company added to the *Meccano/Erector* line, with new open-play sets branded as "Inventor Sets", that allows children to use their imagination to build multiple items rather than creating one specific design.

*Pre-School and Girls*

The Pre-School and Girls product category generated $516.2 million of Gross Product Sales in 2019 ($517.5 million in 2018).

*Pre-School*

The Pre-School category develops toys and children's entertainment for children aged 2 to 5 and is driven primarily by entertainment on both linear and digital platforms. Spin Master's objectives are to drive innovation and exciting entertainment, keep the pipeline full of new product innovation and build global entertainment franchises. The Company develops entertainment programming and toy lines in unison with a strategy to maximize integration and distribution on a global basis. Spin Master will continue to leverage successful entertainment properties with toys and licensing opportunities, driving licensing and merchandise revenue.

Spin Master has been focused on the creation of Company-owned entertainment properties, characters and content in the Pre-School category and, in collaboration with Nickelodeon, Spin Master developed and launched the *PAW Patrol* animated television show in 2013.

*PAW Patrol* has been broadcast in over 160 countries and territories, airing over 60 times a week on Nickelodeon and Nick Jr. Season 6 of *PAW Patrol* is currently airing and the Company has already delivered episodes from season 7 to Nickelodeon. In 2014, the Company launched an initial set of products leveraging the characters and content from the popular show and experienced very positive consumer response. Additional *PAW Patrol* products were launched in North America and international markets in 2015 and 2016 and continue to sell well in the geographic markets in which the series airs. The success of *PAW Patrol* has established Spin Master as a major player in the Pre-School segment and the Company will continue to develop *PAW Patrol* as a global evergreen franchise. Spin Master and Nickelodeon control the licensing of the *PAW Patrol* IP for use in non-toy categories and share the royalties. Spin Master announced a feature length animated film *PAW Patrol: The Movie* is set to be released in theatres in August 2021.

The pre-school show *Rusty Rivets*, targeted at boys and girls aged 2 to 5, follows Rusty and Ruby, a pair of 21st century children, who save the day by relying on imagination and resourcefulness to turn spare parts and found objects into wild, cool contraptions, launched on Nickelodeon and Nick Jr. in 2016 with the full *Rusty Rivets* product launch in 2018.

In 2019, the Company premiered the new original animated pre-school series, *Abby Hatcher* internationally on multiple channels.

*Girls*

The Girls category is targeted at girls aged 5 to 9. Spin Master has historically been a limited participant in the Girls category. The Company's strategy focuses on internally created IP tapping into the play patterns and trends that girls love. Spin Master had early success with the *Bella Dancerella* home ballet studio, which it followed with, among others: the *Liv* line of teenage fashion dolls; *Zoobles*, a Girls version of its popular *Bakugan* brand; *La Dee Da*, a line delivering a unique combination of fashions, accessories and activity booklets complete with the doll's backstory (which was also extended into the digital space with interactive content); *Flutterbye Flying Fairy*, a unique doll with wings that can hover or "fly" over a child's outstretched hand.

In 2019, the Company continued to grow and refresh *Twisty Petz*, which was launched in 2018 and is a full line of cute collectibles that transform pretty pets into bracelets. In addition, in 2019 Spin Master launched *Candy Locks* in the small doll/playset category. Each *Candy Locks* doll features characters with hair that is super soft, long, scented and easy to style allowing unique hairstyles to be created. The brand was supported with short form, animated content to immerse girls in the world of *Candy Locks*.

*Outdoor*

The Outdoor product category generated $86.6 million of Gross Product Sales in 2019 ($96.5 million in 2018).

The Outdoor category primarily consists of four core pillars: *Swimways*, *Aerobie*, *Coop* and *Kelsyus* businesses, offering a diverse portfolio of innovative toys, floats and sporting goods for the backyard, pool and beach. The Company created the Outdoor category in 2016 following the acquisition of *Swimways*, a leader in the Water/Sand Toys & Accessories, which is part of the Outdoor and Sports Toy category. In 2017, the Company acquired certain assets of *Aerobie*, a leading producer of outdoor flying disks and sports toys since 1984. The Company's Outdoor growth strategy is to leverage the global R&D network, introduce product innovation, build out adjacent product categories and increase the Company's global penetration with its brands by tapping into its well-established international sales, marketing and distribution pipeline, making the *Swimways*, *Kelsyus*, *Aerobie* and *Coop* brands available globally.

Swimways products are offered under the brands *Swimways, Kelsyus* and *Coop* and include the popular, patented *Spring Float* line of products, complemented by pool category licenses from a number of popular entertainment franchises. The Aerobie portfolio includes the *Pro Ring*, *Superdisc* and *Sprint Ring flying* discs as well as the *Orbiter Boomerang*, a high-performance boomerang.

In 2019, the Company ran a national marketing campaign in support of the patented *Spring Float* product line. *Spring Float* launched *Aqualinx*, a new seated pool float designed to connect multiple floats together and a new *Infant Spring Float* designed to allow babies to float safely in a pool. The Company also expanded its licensed swim and pool items and expanding into international markets. For the *Aerobie* line of outdoor products, the Company will focus on new branding, increasing global distribution and gaining promotional placement.

**Inventors**

Spin Master's success is fuelled by innovation, the continued development of original products and the redesign of existing products. The Company develops ideas and designs that are internally developed, acquired from toy and game inventors and manufacturers, or developed in combination with entertainment companies based on licensed third-party entertainment content.

Spin Master competes with other toy and game manufacturers to acquire product rights from independent toy and game inventors and works with them collaboratively to advance ideas and designs. Spin Master has deep relationships with the inventor community, which is comprised of several hundred professional creators and product developers around the world who are responsible for many of the industry's new product ideas. The Company's proactive approach to building strong relationships with this group is integral to its product development process. The Company has a demonstrated track record of effectively collaborating with inventors, screening original products and concepts, and management believes they are able to recognize and capitalize on opportunities earlier than its competitors. Spin Master believes that its desire to innovate, its entrepreneurial culture, its speed to market and its emphasis on integrity in dealing with the inventor community and its global scale and reach have made the Company a preferred collaborator.

Rights to designs and ideas, when acquired by Spin Master, are usually exclusive and potentially perpetual in nature provided minimum sales targets are met or minimum royalties are paid. The typical inventor agreement requires Spin Master to pay the inventor a royalty on the Company's revenue of the item and in some cases, also provide for advance royalties.

**Licensing**

Spin Master produces a number of toys and games under trademarks and copyrights utilizing the names or likeness of characters from movies, television shows and other entertainment media, for whose rights Spin Master competes with other toy and game manufacturers. Licensing fees for these rights are generally paid as a royalty on Spin Master's revenue of the item. Licenses for the use of characters are generally exclusive for specific products or product lines in specified territories. In many instances, advance royalties and minimum guarantees are required by these license agreements.

Licensing is a valuable component of the traditional toy industry. Spin Master's licensing department is highly integrated with its product development, distribution and marketing teams and has significant relationships with key licensors and most major studios. Spin Master's approach towards licensing arrangements continually evolves as the Company grows, but it remains cautious of significant licensing investments, especially those that require large advances and / or significant minimum guarantees.

In addition to licensing entertainment characters and content from third parties, Spin Master also owns proprietary entertainment content and toy brands, which it can license to third parties for a wide variety of merchandise the Company does not manufacture. For proprietary entertainment properties, where the Company secures a broadcast deal with a U.S. or Canadian broadcaster who also contributes to the financing of the production, the commercial terms typically allow such broadcaster to act as Spin Master's agent in the administration of the associated merchandising program. Spin Master manages the commercial exploitation of its toy brands internally.

**Entertainment**

Spin Master marked its entry into children's media with the launch of Spin Master Entertainment ("**SME**") in 2008, a division focused on the design, development and production of television and other media properties. SME has a robust pipeline with a number of properties at various stages of development or in production. SME works with both emerging and established talent in the children's animation industry, including content creators, writers, directors, animators, actors, broadcasters and digital platforms to create relatable, fun, educational and unique character-based animated content. Located in Toronto, the SME team has a high level of expertise in developing, producing and monetizing children's entertainment properties. SME consists of both a dedicated team of creative and development producers that focus on early stage development of children's content, and a team of seasoned executive producers, line producers, coordinators, legal & business affairs and production accounting roles concentrating on those projects that have been approved for production. Although SME collaborates with a number of individuals and companies around the world, production is typically concentrated in Canada due to its favourable tax credit incentive regime, Canadian content regulations, availability of international co-production treaties and a highly skilled and experienced animation workforce. The production funding model adopted by SME safeguards against high capital risk associated with production financing and SME is able to produce entertainment content and materially lower its cost of production by taking advantage of international broadcast license fees, upfront payments, co-productions, Canadian tax credits and other media-related funds.

**In-House Digital Production**

SMS, a division of Spin Master, was established in 2007 in order to develop and publish interactive products for children. These products included internet-based single or multi-player games and internet-based virtual communities that feature games and chat. SMS has worked with best-in-class developers, publishers and studios to develop mobile / video games and cross-promote products and digital initiatives across multiple platforms using Spin Master's IP. The division consists of a team focused on the production, technical direction, testing, analytics and monetization of digital and mobile games. This team is highly experienced with deep knowledge from console-based gaming companies or app development studios. In 2016, the Company acquired Toca Boca and Sago Mini, significantly increasing Spin Master's library of mobile apps.

**Manufacturing**

Spin Master's products are primarily manufactured at third-party facilities in China with some of its *Meccano* manufacturing being conducted at its own operations center in Calais, France. The manufacturing processes employed include injection moulding, blow moulding, spray painting, stamping, electronic sub-assembly, printing, packaging and final product assembly. The Company has supplier development and operational excellence processes in place to meet and exceed quality, delivery and cost targets. Spin Master is diversifying its global supply base to other regions, notably Mexico, Vietnam and India, in order to better manage geopolitical risk and dependence on China for product supply. Spin Master's products are manufactured from component parts and raw materials such as plastic, paper, metal and electronic components. Many of these materials are readily available from multiple sources; however, at times they may be subject to significant fluctuations in price. Spin Master generally enters into agreements with suppliers at the beginning of the Company's fiscal year, at established prices. For this reason, Spin Master is generally less affected, in the short-term, by increases in the price of raw materials. However, significant increases in raw material prices may require renegotiation with Spin Master's suppliers during the year.

Spin Master believes that its suppliers' manufacturing capacity and downstream supply of raw materials and component parts are adequate to meet the anticipated demand for its products. Spin Master is constantly expanding and developing supplier relationships to ensure available capacity is able to meet future demand. The Company's reliance on designated external sources of manufacturing could be shifted, over a period of time, to alternative sources of supply for its products, should such changes be necessary or desirable.

Retail sales of toy products are seasonal, and the majority of sales typically occur between July and December in anticipation of the holiday season. See "– Seasonality". This seasonality impacts the planning, manufacturing and flexibility of the supply chain. Toy companies must try to anticipate toy popularity in order to meet consumer demand and align the supply chain accordingly. Retailers have also increased inventory controls in recent years, which generally requires toy manufacturers to ship products closer to retailers' expected customer sale dates. These customer requirements mandate a responsive and flexible supply chain. Retailers' purchasing decisions are further impacted by the product life cycle of the toy sector. Break-through items can generate significant near-term demand that outpaces supply and can lead to shortages of desired products across retailers.

**Quality Control**

Spin Master considers the personal safety of consumers, who use its products, as the Company's top priority and has implemented a toy safety policy which adds further safeguards and provides greater protection for its customers, with industry specialized staff based in all key markets. Spin Master retains both in-house and third-party experts, in a wide range of technologies to best assess and eliminate risks associated with modern complex toys. Spin Master's internal safety standards exceed the highest international industry guidelines and regulatory requirements. Spin Master's comprehensive safety and quality control program is designed to ensure that all aspects of production from raw materials and components to finished products exceed the most stringent regulations globally, and meet Spin Master's standards for safety and social responsibility. Critical components and finished products are monitored by Spin Master's qualified staff, third-party manufacturers and independent, certified laboratories, to meet all standards established by its design team. Spin Master maintains quality representatives on-site that, in addition to the manufacturer's own quality control staff, perform production-line quality control checks during and post-production before Spin Master's toys and games leave its manufacturers' premises. Spin Master's toys are also tested by the manufacturer, internally at Spin Master's in-house testing lab and also by globally accredited third-party independent testing labs. The quality control staff receives regular training by third-party experts, in order to ensure that their skills are always current and that foreseeable marketplace trends are identified early.

**Customers**

Spin Master has strong and long-standing relationships with its customers, which include mass and discount retailers, specialty toy and game retailers, hobby shops, department stores, drug stores, online e-retailers and distributors in select international markets. Spin Master primarily distributes its products in the U.S. through mass and discount retailers. In 2019, the three largest customers collectively accounted for approximately 48.0% of the Company's Gross Product Sales (47.9% in 2018). This amount includes sales through both traditional "physical stores" and online portals. While having a large amount of its business concentrated with three major retailers provides Spin Master with certain benefits, such as more efficient product distribution and decreased costs of sales and distribution, this concentration also creates additional risks to the Company. See "Risk Factors – Spin Master's sales are concentrated with a small number of retailers that do not make long-term purchase commitments. Consequently, economic difficulties or changes in the purchasing policies of those retailers could have a material adverse effect on the Company's business, financial condition and performance."

Spin Master typically introduces its original products to major customers one year prior to the commencement of retail sales for such products. In addition, the Company showcases many of its original products at the Hong Kong Toy Fair in January, the American International Toy Fair held in New York City in February, the Nuremberg Toy Fair in February and the Consumer Electronics Show held in Las Vegas in January.

**Distribution Channels and Sales and Marketing**

Toys are primarily distributed through mass and discount retailers, toy specialty stores, direct sales channels, wholesalers, distributors, chain stores, discount stores, mail order houses, catalogue stores, department stores and other traditional retailers as well as e-commerce sites. The toy industry retailer base has remained relatively consistent over the last few years with expansion into the value channel (e.g. dollar stores) and online sales. In addition, there has been an increase in sales from non-traditional toy sellers such as book stores and craft retailers.

Spin Master utilizes all channels of distribution; however, the sale and distribution of its products can be generally categorized as follows:

- **Retailers**. Retailers sell Spin Master products to consumers through their traditional "physical store" locations or through their online platforms. Spin Master services retailers in North America directly through its sales and marketing offices in Toronto, Los Angeles, San Francisco, New York and Bentonville. Retailers in North America also purchase product directly from Spin Master's wholly-owned subsidiary in Hong Kong. Outside of North America, Spin Master has wholly-owned subsidiaries in a number of major territories represented by local offices that carry on sales and marketing efforts for the Company directly with retailers in their respective markets. Spin Master's international sales and marketing offices are located in London, Paris, Amsterdam, Munich, Milan, Mexico City, Moscow, Warsaw, Sydney and Hong Kong. See "– Premises".

- **Distributors**. In those countries not serviced and supported by a Spin Master sales and marketing office, Spin Master enters into distribution arrangements with third-party distributors, who purchase the Company's products for sale to retailers in that country.

- **Consumers**. In North America, Spin Master distributes certain products directly to consumers, typically in the Activities, Games & Puzzles and Plush business segment, primarily through a direct to consumer ecommerce site and through television direct response.

Spin Master pursues innovative, fully-integrated marketing techniques to build awareness, create excitement and deliver strong sell-through for its brands and products. These plans are strategically built across paid, owned and earned media channels, have a clearly defined focus on digital marketing and distribute the appropriate content across multiple channels to maximize and optimize exposure to the end consumer. Spin Master incorporates sophisticated marketing mix analytics to monitor, adjust and optimize its marketing investment on a continual basis.

The majority of marketing is spent on television advertising campaigns, mostly scripted by internal creative talent, although the Company leverages select creative and integrated agency partners to remain best in class in creative content delivery. Television direct response is used when there is opportunity to build strong consumer engagement and demand prior to retail launch. This is particularly prevalent in the Company's Activities Global Business Unit. In addition, creative public relations, experiential marketing and grassroots programs are leveraged to enhance brand and product awareness in efficient and effective ways. Spin Master believes that through these methods, it has distinguished its brand and products from those of competitors.

Spin Master's marketing efforts involve developing specific communication strategies and themes for each of its products, brands and entertainment properties, which helps ensure every touch point consumers have along the path to purchase is consistent. Spin Master is currently focusing on extending its brands, products and entertainment properties messaging and content across multiple platforms to reach consumers everywhere they consume content, allowing them to more easily connect with Spin Master brands, products and entertainment properties. Emphasis on search marketing, YouTube pre-roll, Spin Master owned and retailer partner website content, social media marketing and influencer marketing are key focus areas for Spin Master in order to reach both children and their parents effectively and efficiently.

**Seasonality**

Sales of toys and other children's products are seasonal. The majority of Spin Master's sales in 2019 were made in the third and fourth quarters. Generally, in Spin Master's experience, the first quarter is the period of lowest shipments and revenues in the toy industry and therefore, the least profitable because of certain fixed costs.

Spin Master generally ships products to customers within one to three months of the date an order is received. Spin Master typically does not have any backlog within the Company due to the order lead time. However, on occasion Spin Master might experience a backlog on domestic shipments for high demand items from the end of October to the end of November. In the toy industry, orders are subject to cancellation or change at any time prior to shipment; however, Spin Master's top three customers have cancellation windows allowing for no cancellation or change within 30 days prior to shipment without triggering an associated payment to Spin Master. In recent years, a trend toward just-in-time inventory practices in the toy industry has resulted in fewer advance orders and therefore less backlog of orders.

**Competition**

Spin Master operates in a highly competitive industry. The Company competes with several large toy, entertainment and game companies, as well as many smaller U.S., Canadian and international toy, entertainment and game designers, manufacturers and marketers. The industry's low barriers to entry result in opportunities for existing competitors and new entrants to develop toys, games and entertainment properties that compete with Spin Master's products. Competition is based primarily on consumer preferences, product quality and price. Competition often extends to the procurement of popular entertainment and trademark licenses as well as distribution and marketing of products and the acquisition of premium retail shelf space. In the broadcast entertainment segment, Spin Master competes with several large industry participants whose primary focus is to produce and distribute filmed entertainment content.

Competition is intensifying due to general trends in the toy industry, including age compression, shorter life cycles, growing popularity of electronic toys and video games, the increasing concentration of distribution to large discount retailers, pricing pressures of rising material and labour costs, and volatility of consumer preferences. Spin Master's success in this competitive environment depends partially on its continuing ability to secure and develop products based on licensed content, design and develop innovative products, and to successfully market these products to leading toy retailers and consumers. Spin Master's success in filmed entertainment will rely on its ability to create new and engaging content that lends itself to synergies with toy and mobile gaming and tapping the Company's relationships with studios, animators and broadcasters.

**Employees**

Spin Master is headquartered in Toronto, Canada and has employees based in the U.S., Canada, Australia, China, Czech Republic, France, Germany, Greece, Hong Kong, Hungary, India, Italy, Japan, Mexico, Netherlands, Poland, Romania, Russia, Slovakia, Sweden, the U.K. and Vietnam. As at December 31, 2019, Spin Master had more than 1,800 employees worldwide, with more than 1,000 located in Canada and the U.S.

Spin Master believes that it has strong relationships with its employees. Spin Master's work force is highly skilled and diverse. Furthermore, Spin Master supports the development of its employees through active performance management and human resources practices. Spin Master strives to provide employees with a positive working environment, while simultaneously focusing on continued improvement and increased overall productivity. Spin Master firmly supports recognizing and celebrating achievements of personal, business and organizational goals.

## Insurance

Spin Master carries various insurance coverage policies to protect the Company from risks, including potential liability, normally consistent with the nature and scope of its operations. The most significant insurance policies that the Company carries include: worldwide commercial general liability insurance, worldwide umbrella and umbrella excess coverage, worldwide transit, worldwide stock, worldwide real property damage, machinery breakdown in Canada and the U.S., worldwide directors and officers insurance, errors and omissions and trade credit insurance. All policies are subject to certain deductibles, limits or sub-limits and policy terms and conditions.

## Intellectual Property

Most of Spin Master's products and entertainment content is sold under trademarks, trade names and copyrights, and a number of those products incorporate patented devices or designs. Spin Master vigorously protects its IP under international trademark, copyright and patent laws. These intangibles are significant assets of the Company in that they provide product recognition and acceptance worldwide and inhibit competitors from replicating the Company's products and ideas. Spin Master customarily seeks patent, trademark or copyright protection covering its products and the Company owns or has applications pending for U.S. and foreign patents covering many of its products. As at December 31, 2019, Spin Master on a global basis had approximately 375 registered and pending design patents, approximately 540 registered and pending utility patents, approximately 3,700 trademarks, which are either registered or pending and approximately 650 copyright registrations and approximately 4,350 *Gund* copyright registration files. Spin Master believes its rights to these properties are adequately protected, but these rights may not be successfully asserted in the future or may be invalidated, circumvented or challenged.

## Premises

Spin Master's principal executive and administrative offices are leased by the Company and are located at 225 King Street West, Toronto, Ontario M5V 3M2. Spin Master has additional offices in the U.S., Canada, Mexico, the U.K., France, Germany, Slovakia, the Netherlands, Italy, India, Poland, Sweden, Russia, China, Hong Kong (including for administrative offices and showroom facilities), Australia, Vietnam and Japan.

# INDUSTRY OVERVIEW

## Children's Entertainment

Spin Master competes in the global children's entertainment industry by creating, designing, manufacturing, licensing and marketing a diversified portfolio of innovative toys, games, products and entertainment properties.

## Evolving Play Patterns

The children's entertainment industry includes a variety of products and activities focused on making it fun to play and learn. One of the largest parts of the children's entertainment industry is traditional toys and games. Traditional toys and games represent a stable and mature global business; however, traditional toys and games are just one part of an expanding array of options to enhance children's learning and fun. Over time, advancements in media and technology have helped progress children's social interactions and created new ways for them to engage with each other, the toys, games and brands they enjoy and the world around them. These advancements are resulting in significant enhancements to traditional toys and games and a convergence of media, technology and traditional toys and games. Spin Master strives to operate at the frontier of this evolving industry, providing traditional toy products, media content and characters, interactive experiences, digital content and leading technology that will represent the future of play. While traditional toys and games continue to represent the core of the overall children's entertainment industry, Spin Master is focused on creating and developing children's products, brands and entertainment properties and leveraging technology in ways that will allow the Company to take full advantage of evolving play patterns.

## Government Regulation

Spin Master's toy products sold in the U.S. are subject to the provisions of the *Consumer Product Safety Act* ("**CPSA**"), and the *Federal Hazardous Substances Act* ("**FHSA**"), and may also be subject to the requirements of the *Flammable Fabrics Act* ("**FFA**"), Federal Communication Commission or the *Food, Drug, and Cosmetics Act*, and the regulations promulgated pursuant to such statutes. The CPSA and the FHSA authorize the U.S. Consumer Product Safety Commission, to exclude from the market consumer products that fail to comply with applicable product safety regulations or otherwise create a substantial risk of injury, as well as articles that contain excessive amounts of a banned hazardous substance. The U.S. Consumer Product Safety Commission may also require the recall, repurchase, replacement or repair of articles that are banned. Similar laws exist in Canada and in many international markets. Spin Master maintains a quality assurance and quality control program to ensure compliance with various U.S. federal and state, Canadian federal and provincial, and other international product safety requirements such as those stipulated by the European Commission. Spin Master uses third-party laboratories that employ testing and other procedures intended to maintain compliance with the CPSA, the FHSA, the FFA, Canadian and other international standards and Spin Master's own standards. However, all of Spin Master's products may not be free from defects or may not be hazard-free. A product recall could have a material adverse effect on Spin Master's results of operations and financial condition, depending on the product affected by the recall and the extent of the recall efforts required. A product recall could also negatively affect Spin Master's reputation and the sale of the Company's other products. Spin Master's advertising is subject to the *Federal Trade Commission Act*, *The Children's Television Act of 1990*, the rules and regulations promulgated by the Federal Trade Commission and the Federal Communications Commission, as well as laws of Canada and certain other countries that regulate advertising generally and advertising to children. In addition, Spin Master's websites that are directed towards children are subject to *The Children's Online Privacy Protection Act of 1998*. Spin Master is subject to various other federal, state, provincial and local laws and regulations applicable to its business. Spin Master believes that it is in substantial compliance with these laws and regulations. In 2008, new legislation was passed by the U.S. Senate under the newly enacted *Consumer Product Safety Improvement Act of 2008*, two main features of which are the required reduction in lead content in children's products (in effect August 2009) and the elimination of Phthalates (in effect February of 2009). Spin Master has eliminated carcinogenic flame retardants in foam furniture items, in advance of, and in accordance with revisions to California TB117 (in effect in 2014) while still exceeding flammability regulations. Spin Master has been working towards compliance with these standards since they have been invoked and expect minimal repercussions from these standards.

## DESCRIPTION OF SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of Subordinate Voting Shares, an unlimited number of Multiple Voting Shares and an unlimited number of Preferred Shares. As at March 20, 2020, there were outstanding 31,562,378 Subordinate Voting Shares, 70,647,887 Multiple Voting Shares and no Preferred Shares.

### Subordinate Voting Shares and Multiple Voting Shares

Except as described herein, the Subordinate Voting Shares and the Multiple Voting Shares have the same rights, are equal in all respects and will be treated as if they were shares of one class only. The Subordinate Voting Shares are "restricted securities" within the meaning of such term under applicable Canadian securities laws.

*Rank*

The Subordinate Voting Shares and Multiple Voting Shares rank *pari passu* with respect to the payment of dividends, return of capital and distribution of assets in the event of the liquidation, dissolution or winding up of Spin Master.

*Dividends*

The holders of the outstanding Subordinate Voting Shares and the outstanding Multiple Voting Shares are entitled to receive dividends out of assets legally available therefor at such times and in such amounts and form as the Board of the Company may from time to time determine without preference or distinction between Subordinate Voting Shares and Multiple Voting Shares, and subject to any preferential rights of the holders of any outstanding Preferred Shares. See "Description of Share Capital – Dividend Policy".

*Voting Rights*

Subordinate Voting Shares are entitled to one vote per share and Multiple Voting Shares are entitled to 10 votes per share. Accordingly, as at March 20, 2020, holders of Subordinate Voting Shares were entitled to exercise 4.3% of all votes attached to the Voting Shares and holders of Multiple Voting Shares were entitled to exercise 95.7% of all votes attached to the Voting Shares.

*Shareholder Approval Required for Certain Matters*

In addition to any other voting right or power to which the holders of Subordinate Voting Shares shall be entitled by law or regulation or other provisions of the articles of the Company from time to time in effect, but subject to the provisions of articles of the Company, holders of Subordinate Voting Shares shall be entitled to vote separately as a class, in addition to any other vote of shareholders that may be required, in respect of any alteration, repeal or amendment of the articles of the Company which would adversely affect the powers, preferences or rights of the holders of Subordinate Voting Shares, including an amendment to the terms of the articles of the Company that provide that any Multiple Voting Shares sold or transferred to a person that is not Messrs. Harary, Rabie or Varadi, the estates of any of the foregoing, an immediate family member of any of the foregoing, any corporation controlled by any of the foregoing, any trust of which any of the foregoing is a trustee or any trust that has been established substantially for the benefit of such person and / or one or more members of his immediate family (each a "**Permitted Holder**") shall be automatically converted into Subordinate Voting Shares.

*Automatic Conversion of Multiple Voting Shares*

A Multiple Voting Share will convert, without any further action on the part of the Company or the holder of such shares, automatically into a Subordinate Voting Share on a one-for-one basis in the event that such Multiple Voting Share is transferred to or held by any person that is not a Permitted Holder, as set out in the Principal Shareholders Agreement.

For the purposes of the Principal Shareholders Agreement, a "**Principal Shareholders Group**" includes the Principal Shareholder of such group and any of his affiliates (as defined in the Principal Shareholders Agreement) and any Permitted Holders of the Principal Shareholder, that beneficially own Multiple Voting Shares from time to time.

All Multiple Voting Shares will convert, without any further action on the part of the Company or the holder of such shares, automatically into Subordinate Voting Shares, on a one-for-one basis, on the earlier of the date on which (a) the Principal Shareholders Groups beneficially own, directly or indirectly and in the aggregate, less than 15% of the number of issued and outstanding Multiple Voting Shares and Subordinate Voting Shares, or (b) Mr. Harary and Mr. Rabie (collectively, the "**Majority Principals**" and individually, a "**Majority Principal**") cease to qualify as Majority Principals, or (c) the Principal Shareholders Agreement has terminated in accordance with its terms. In addition, the Majority Principals may, in their sole discretion, require the conversion of all, but not less than all, of the Multiple Voting Shares into Subordinate Voting Shares.

*Conversion*

Subordinate Voting Shares cannot be converted into any other class of shares. Multiple Voting Shares may be converted into Subordinate Voting Shares on a one-for-one basis, at any time and from time to time, at the option of the holders, subject to the terms of the Principal Shareholders Agreement. Under the terms of the Principal Shareholders Agreement, holders of Multiple Voting Shares may be required to convert their Multiple Voting Shares into Subordinate Voting Shares on a one-for-one basis under certain circumstances.

Each Multiple Voting Share will automatically convert into a Subordinate Voting Share in the event of any transfer thereof, except a transfer made to a Permitted Holder.

*Meetings of Shareholders*

Holders of Voting Shares (collectively, "**Shareholders**") are entitled to receive notice of any meeting of Shareholders and may attend and vote at such meetings, except those meetings where only the holders of shares of another class or of a particular series are entitled to vote. A quorum for the transaction of business at a meeting of Shareholders shall be two persons present and each entitled to vote at the meeting who, together, hold or represent by proxy not less than 15% of the votes attaching to the outstanding Voting Shares of the Company entitled to vote at the meeting.

*Pre-Emptive Rights*

Holders of Subordinate Voting Shares do not have pre-emptive rights. Other than as described under "Material Contracts – Principal Shareholders Agreement – Pre-Emptive Rights", holders of Multiple Voting Shares do not have pre-emptive rights.

*Liquidation Rights*

Upon the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, the holders of Multiple Voting Shares and Subordinate Voting Shares, without preference or distinction, will be entitled to receive rateably all of the Company's assets remaining after payment of all debts and other liabilities, subject to the prior rights of the holders of any other prior ranking shares that may be outstanding at such time.

*Subdivision, Consolidation and Issuance of Rights*

No subdivision or consolidation of the Multiple Voting Shares or Subordinate Voting Shares may occur unless the shares of both classes are concurrently subdivided or consolidated and in the same manner and proportion. Other than as described in this Annual Information Form, no new rights to acquire additional shares or other securities or property of the

Company will be issued to holders of Multiple Voting Shares or Subordinate Voting Shares unless the same rights are concurrently issued to the holders of shares of both classes.

*Take-Over Bid Protection*

Under applicable Canadian law, an offer to purchase Multiple Voting Shares would not necessarily require that an offer be made to purchase Subordinate Voting Shares. In accordance with the rules of the TSX designed to ensure that, in the event of a take-over bid, the holders of Subordinate Voting Shares will be entitled to participate on an equal footing with holders of Multiple Voting Shares, the Principal Shareholders, as the owners of all the outstanding Multiple Voting Shares, entered into a customary coattail agreement with Spin Master and Computershare Trust Company of Canada, as trustee, dated July 30, 2015 (the "**Coattail Agreement**"). The Coattail Agreement contains provisions customary for dual class, TSX-listed corporations, designed to prevent transactions that otherwise would deprive the holders of Subordinate Voting Shares of rights under the take-over bid provisions of applicable Canadian securities legislation to which they would have been entitled if the Multiple Voting Shares had been Subordinate Voting Shares.

The undertakings in the Coattail Agreement do not apply to prevent a sale by any Principal Shareholder of Multiple Voting Shares if concurrently an offer is made to purchase Subordinate Voting Shares that:

(a) offers a price per Subordinate Voting Share at least as high as the highest price per Voting Share paid or required to be paid pursuant to the take-over bid for the Multiple Voting Shares;

(b) provides that the percentage of outstanding Subordinate Voting Shares to be taken up (exclusive of Subordinate Voting Shares owned immediately prior to the offer by the offeror or persons acting jointly or in concert with the offeror) is at least as high as the percentage of outstanding Multiple Voting Shares to be sold (exclusive of Multiple Voting Shares owned immediately prior to the offer by the offeror and persons acting jointly or in concert with the offeror);

(c) has no condition attached other than the right not to take up and pay for Subordinate Voting Shares tendered if no Voting Shares are purchased pursuant to the offer for Multiple Voting Shares; and

(d) is in all other material respects identical to the offer for Multiple Voting Shares.

In addition, the Coattail Agreement will not prevent the sale or transfer of Multiple Voting Shares by any Principal Shareholder, or any Permitted Holder, to a Permitted Holder, provided such sale does not or would not constitute a take-over bid or, if so, is exempt or would be exempt from the formal bid requirements (as defined in applicable securities legislation). The conversion of Multiple Voting Shares into Subordinate Voting Shares, shall not, in of itself constitute a sale of Multiple Voting Shares for the purposes of the Coattail Agreement.

Under the Coattail Agreement, any sale of Multiple Voting Shares (including a transfer to a pledgee as security and a transfer to a Permitted Holder) by a holder of Multiple Voting Shares party to the Coattail Agreement must be conditional upon the transferee or pledgee becoming a party to the Coattail Agreement, to the extent such transferred Multiple Voting Shares are not automatically converted into Subordinate Voting Shares in accordance with the articles of the Company.

The Coattail Agreement contains provisions for authorizing action by the trustee to enforce the rights under the Coattail Agreement on behalf of the holders of the Subordinate Voting Shares. The obligation of the trustee to take such action are conditional on the Company or holders of the Subordinate Voting Shares providing such funds and indemnity as the trustee may require. No holder of Subordinate Voting Shares has the right, other than through the trustee, to institute any action or proceeding or to exercise any other remedy to enforce any rights arising under the Coattail Agreement unless the trustee fails to act on a request authorized by holders of not less than 10% of the outstanding Subordinate Voting Shares and reasonable funds and indemnity have been provided to the trustee.

The Coattail Agreement may not be amended, and no provision thereof may be waived, unless, prior to giving effect to such amendment or waiver, the following have been obtained: (a) the consent of the TSX and any other applicable securities regulatory authority in Canada and (b) the approval of at least $66^2/_3$% of the votes cast by holders of Subordinate Voting Shares represented at a meeting duly called for the purpose of considering such amendment or waiver, excluding votes attached to Subordinate Voting Shares held directly or indirectly by holders of Multiple Voting Shares, their affiliates and related parties and any persons who have an agreement to purchase Multiple Voting Shares on terms which would constitute a sale for purposes of the Coattail Agreement other than as permitted thereby.

No provision of the Coattail Agreement limits the rights of any holders of Subordinate Voting Shares under applicable law.

A copy of the Coattail Agreement is available under the Company's profile on SEDAR at www.sedar.com.

**Preferred Shares**

The Preferred Shares may be issued in one or more series. The Board may amend the Company's articles to fix the authorized number of Preferred Shares in, and to determine the designation of the shares of, each series and to create, define and attach rights and restrictions to the shares of each series, subject to the rights and restrictions attached to the Preferred Shares as a class. Except as required by law, the Preferred Shares will not be entitled to receive notice of, attend or vote at any meeting of the Shareholders of the Company.

The Preferred Shares are entitled to preference over the Subordinate Voting Shares and the Multiple Voting Shares with respect to the payment of dividends and the distribution of the Company's assets, whether voluntary or involuntary, or in the event of any other distribution of the Company's assets among its shareholders for the purpose of winding-up its affairs, and each series of Preferred Shares may also be given those preferences over the Subordinate Voting Shares and the Multiple Voting Shares and other series of Preferred Shares.

If the Company does not pay cumulative dividends in full with respect to a series of the Preferred Shares, as applicable, the shares of all series of the Preferred Shares will participate ratably with respect to the accumulated dividends in accordance with the amounts that would be payable on those shares if all the accumulated dividends were paid in full. If amounts payable are not paid in full on the Company's winding-up, or on the occurrence of any other event as a result of which the holders of the shares of all series of the Preferred Shares are entitled to a return of capital, the shares of all series of the Preferred Shares will participate rateably in a return of capital in respect of the Preferred Shares as a class in accordance with the amounts that would be payable on the return of capital if all amounts so payable were paid in full.

The Company may not create or issue any shares ranking senior to any outstanding series of the Preferred Shares with respect to the payment of dividends or the distribution of assets in the event of the Company's liquidation, dissolution or winding-up, whether voluntary or involuntary, or in the event of any other distribution of the Company's assets among the Company's shareholders for the purpose of winding-up the Company's affairs, without first receiving the approval of that outstanding series of the Preferred Shares given by a resolution passed at a meeting by the affirmative vote of not less than two-thirds of the votes cast at that meeting.

The holders of the Preferred Shares are not entitled as a class to receive notice of, to attend or to vote at any meeting of the Company's shareholders, except as may be specifically required by law. The rights and restrictions attached to the Preferred Shares as a class may be amended with, in addition to any approval that may then be prescribed by applicable law, the approval of the registered holders of the Preferred Shares given by a resolution passed at a meeting by the affirmative vote of not less than two-thirds of the votes cast at such meeting.

**Dividend Policy**

Since completion of the IPO on July 30, 2015, Spin Master has not declared any dividends on the Voting Shares. The Company currently intends to retain any future earnings to fund the development and growth of its business. Any determination to pay dividends in the future will be at the discretion of the Board and will depend on many factors, including the Company's financial condition, current and anticipated cash requirements, contractual restrictions and covenants, solvency tests imposed by corporate law and other factors that the Board may deem relevant. Currently, dividends may not be paid by the Company unless (A) both before and immediately after the payment of such dividends no default has occurred or would occur under the Company's credit facilities as a result of the payment of such dividends, (B) the Company and Spin Master Ltd. ("**SML**") are in compliance with their financial covenants as of the last completed fiscal quarter, and (C) the Company and SML remain in *pro forma* compliance with the financial covenants (as if such dividends had been paid) as at the beginning of the fiscal quarter in which such dividends will be paid.

**Prior Issuances of Unlisted Securities**

Since the beginning of the most recently completed financial year, Spin Master has not issued any securities that are not listed or quoted on a marketplace, other than pursuant to the terms of the Company's Long-Term Incentive Plan.

**Market For Securities**

The outstanding Multiple Voting Shares are not quoted or listed for trading on a marketplace. The outstanding Subordinate Voting Shares are listed on the TSX and commenced trading under the symbol "TOY" on July 30, 2015.

The following table sets forth, for the periods indicated, the reported high and low prices and the aggregate volume of trading of the Subordinate Voting Shares on the TSX:

| Period | Price ($) High | Price ($) Low | Trading Volume |
|---|---|---|---|
| **2019** | | | |
| January | 46.32 | 37.14 | 2,245,622 |
| February | 45.23 | 39.50 | 1,652,908 |
| March | 45.59 | 36.47 | 2,454,177 |
| April | 44.88 | 36.97 | 1,541,543 |
| May | 46.00 | 39.25 | 2,576,021 |
| June | 46.61 | 37.50 | 2,436,276 |
| July | 38.65 | 35.94 | 1,996,852 |
| August | 43.52 | 39.98 | 2,807,470 |
| September | 44.43 | 40.06 | 1,584,623 |
| October | 41.37 | 34.82 | 3,413,114 |
| November | 41.29 | 34.83 | 2,396,448 |
| December | 42.22 | 38.20 | 1,354,513 |

Source: TSX MarketData

**Escrowed Securities and Securities Subject to Contractual Restriction on Transfer**

The following securities of the Company were, as of March 20, 2020, held in escrow, or are subject to contractual restriction on transfer:

| Designation of class | Number of securities held in escrow or that are subject to a contractual restriction on transfer[(1)] | Percentage of class |
|---|---|---|
| Subordinate Voting Shares | 465,939[(2)] | 1.5% |

(1) See also "Material Contracts – Principal Shareholders Agreement – Transfer Restrictions and Sale Procedures" for further contractual restrictions on transfer not included in the table.

(2) These Subordinate Voting Shares were issued in satisfaction of pre-IPO equity participation arrangements the Company had with certain executive officers, employees and former employees, and will be held in escrow pursuant to an escrow agreement entered into between the Company, each escrowed Shareholder and Computershare Trust Company of Canada, as escrow agent. In aggregate, the participant Shareholders shall be entitled to sell a portion of the outstanding Subordinate Voting Shares that are subject to contractual restrictions on their sale, on each anniversary of the issuance of the Subordinate Voting Shares, being July 30, 2015, as follows: 20.4% on the first anniversary; 15.2% on the second anniversary; 13.0% on the third anniversary; 13.0% on the fourth anniversary; 13.0% on the fifth anniversary; and 9.6% on the sixth anniversary, in each case assuming no forfeiture of shares due to resignation or termination of employment and no accelerated release due to death, disability or termination without cause.

## DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information regarding each individual who was a Director or executive officer of the Company as at March 20, 2020, including each such individual's province or state and country of residence and principal occupation during the five preceding years:

| Name | Position(s) / Title(s) with the Company | Principal Occupation(s) |
|---|---|---|
| Jeffrey I. Cohen<br>Ontario, Canada<br>(Director since 2015) | Director | Managing partner at Torkin Manes LLP, a full-service Toronto law firm. |
| Ronnen Harary<br>Ontario, Canada<br>(Director since 2015)[(1)] | Chair and Co-Chief Executive Officer | Co-Chief Executive Officer and co-founder of the Company |

| Name | Position(s) / Title(s) with the Company | Principal Occupation(s) |
| --- | --- | --- |
| Dina R. Howell................ Florida, U.S. (Director since 2015) | Director | Corporate director, since July 2015. Previously, Chief Executive Officer of Saatchi & Saatchi X, a shopper marketing agency. |
| Anton Rabie..................... Ontario, Canada (Director since 2015)(1) | Director and Co-Chief Executive Officer | Co-Chief Executive Officer and co-founder of the Company |
| Todd Tappin .................... California, U.S. (Director since 2015) | Director | Strategic consultant to a cross section of companies and private equity firms. Previously, President and Chief Financial Officer of TechStyle Inc., a privately held fashion company, from July 2016 to November 2018 and Chief Operating Officer and Chief Financial Officer of The Rubicon Project, Inc. (a publicly traded technology company), since 2013. |
| Ben Varadi....................... Ontario, Canada (Director since 2015)(1) | Director, Executive Vice President and Chief Creative Officer | Executive Vice President and Chief Creative Officer and co-founder of the Company |
| Charles Winograd............ Ontario, Canada (Director since 2015) | Lead Director | Senior Managing Partner of Elm Park Capital Management, a mid-market lending limited partnership, and President of Winograd Capital Inc., an external consulting and private investment firm. |
| Mark Segal....................... Ontario, Canada | Executive Vice President and Chief Financial Officer | Executive Vice President and Chief Financial Officer of the Company, since March 2015 (and from 2001 to 2011). Previously, Vice President Finance and Chief Financial Officer at Husky Injection Molding Systems, a supplier of injection molding equipment and services to the plastics industry, from 2013 to 2015, and Chief Operating Officer at Canada Goose Inc., a producer of extreme weather outerwear, until 2013. |
| Tara Deakin ..................... Ontario, Canada | Executive Vice President and Chief People Officer | Executive Vice President and Chief People Officer of the Company, since January 2020. Previously Senior Vice President, Talent Development of the Company from June 2019 to January 2020. Previously Senior Vice President of Talent at TD Bank, a banking institution, from January 2016 to April 2019 and Managing Director, Chief Learning Officer at Citigroup Inc., a banking institution, from May 2011 to November 2015. |
| Christopher Beardall........ Ontario, Canada | Executive Vice President of Global Sales | Executive Vice President of Global Sales of the Company. |
| Adam J. Beder ................. Ontario, Canada | Executive Vice President, Strategic Partnership and Franchise Development | Executive Vice President Strategic Partnership and Franchise Development, since October 2018. Previously, Executive Vice President of Global Licensing and Business Affairs of the Company. |
| Paul Blom ........................ Ontario, Canada | Interim Executive Vice President, Global Operations and Technology | Interim Executive Vice President, Global Operations and Technology of the Company since February 2020. Previously, Chief Procurement Officer and Senior Vice President Global Supply Chain at Celestica Inc. from 2013 to June 2019. |
| Jennifer Dodge................. Ontario, Canada | Executive Vice President, Entertainment | Executive Vice President, Entertainment of the Company since May 2017. Previously, Senior Vice President, Development for Nickelodeon Preschool from May 2015 to May 2017. Prior to joining Nickelodeon, Jennifer served as Vice President and Executive Producer, Entertainment of the Company from 2009 to 2015. |

| Name | Position(s) / Title(s) with the Company | Principal Occupation(s) |
|---|---|---|
| Christopher Harrs ............ Ontario, Canada | Executive Vice President and General Counsel, Corporate Secretary | Executive Vice President and General Counsel, Corporate Secretary of the Company. |
| Laura Henderson............. Ontario, Canada | Executive Vice President, Marketing and Ecommerce | Executive Vice President, Marketing and Ecommerce of the Company, since May 2019. Previously Head of Marketing at BuzzFeed, an American internet media, news and entertainment company with a focus on digital media, from January 2017 to February 2019, and multiple positions, most recently Global Head of Content & Media Monetization at Mondelēz International, Inc., a multinational confectionery, food, and beverage company, from April 2012 to January 2017. |

(1) Messrs. Harary, Rabie and Varadi also served as directors of predecessors to the Company.

The current term of office for each Director listed above expires at the close of the next meeting of Shareholders. As at March 20, 2020, the Directors and executive officers of the Company, as a group, beneficially owned, or controlled or directed, directly or indirectly, 903,239 Subordinate Voting Shares, representing 2.9% of the issued and outstanding Subordinate Voting Shares and 70,697,887 Multiple Voting Shares, representing 100% of the issued and outstanding Multiple Voting Shares. Accordingly, as at March 20, 2020 the Directors and executive officers of the Company, as a group, beneficially owned, or controlled or directed, directly or indirectly, 70.1% of the Company's total issued and outstanding Voting Shares and approximately 95.8% of the voting power attached to all of the Voting Shares.

Marathon Investment Holdings Ltd., a company controlled by Ronnen Harary, beneficially owns 30,182,401 Multiple Voting Shares (42.7%) of the outstanding Multiple Voting Shares) and no Subordinate Voting Shares, Trumbanick Investments Ltd. a company indirectly controlled by Anton Rabie, beneficially owns 30,430,516 Multiple Voting Shares (43.1% of the outstanding Multiple Voting Shares) and no Subordinate Voting Shares, and LentilBerry Inc., a corporation indirectly controlled by Ben Varadi, beneficially owns 7,432,740 Multiple Voting Shares (10.5% of the outstanding Multiple Voting Shares) and no Subordinate Voting Shares. Pursuant to the Principal Shareholders Agreement, Messrs. Harary and Rabie also jointly control all Voting Shares held by the Principal Shareholders. See "Material Contracts – Principal Shareholders" and "Interests of Management and Others in Material Transactions".

## Cease Trade Orders

To the knowledge of the Company, no Director or executive officer of the Company (nor any personal holding company of any of such individuals) is, as of the date of this Annual Information Form, or was within ten years before the date of this Annual Information Form, a director, chief executive officer or chief financial officer of any company (including the Company), that: (i) was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an "**Order**"), that was issued while the individual was acting in the capacity as a director, chief executive officer or chief financial officer; or (ii) was subject to an Order that was issued after the individual ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that individual was acting in the capacity as director, chief executive officer or chief financial officer, except for Mark Segal who was a member of the board of directors of Kew Media Group Inc. ("Kew") when: (i) a cease trade order was issued (and currently remains in effect) by the Ontario Securities Commission due to Kew's auditor's withdrawal of audit reports on certain of Kew's financial statements as a result of misrepresentations by Kew's former Chief Financial Officer; and (ii) a receiver was appointed over the assets, undertakings and properties of Kew.

**Bankruptcies**

Other than as described herein, to the knowledge of the Company, no Director or executive officer of the Company (nor any personal holding company of any of such individuals): (i) is, as of the date of this Annual Information Form, or has been within the ten years before the date of this Annual Information Form, a director or executive officer of any company (including the Company) that, while that individual was acting in that capacity, or within a year of that individual ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (ii) has, within the ten years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its.

**Penalties or Sanctions**

To the knowledge of the Company, no Director or executive officer of the Company (nor any personal holding company of any of such individuals) has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable holder of Voting Shares in deciding whether to vote for the proposed Director.

**Advance Notice Provisions**

The Company's by-laws provide for advance notice of nominations of Directors ("**Advance Notice Provisions**") in circumstances where nominations of persons for election to the Board are made by Shareholders other than (a) pursuant to the Majority Principal Nomination Rights (as defined under "Material Contracts – Principal Shareholders Agreement") or (b) by or at the direction or request of one or more Shareholders pursuant to a proposal or a requisition of the Shareholders made in accordance with applicable law and the Company's by-laws.

To be an eligible Shareholder for making nominations under the Advance Notice Provisions, the nominating Shareholder must (a) comply with the notice procedures set forth in the Advance Notice Provisions, as provided for below, and (b) at the close of business on the date of the giving of the applicable notice and on the record date for notice of the applicable Shareholder meeting, be entered in the Company's register as a holder of one or more Voting Shares carrying the right to vote at such meeting or beneficially own Voting Shares that are entitled to be voted at such meeting.

The Advance Notice Provisions fix deadlines by which an eligible Shareholder must notify the Company of nominations of individuals for election to the Board as follows: such notice must be provided to the Secretary of the Company (a) in the case of an annual meeting of Shareholders, not less than 30 days prior to the date of the annual meeting of Shareholders; provided, however, that in the event that the annual meeting of Shareholders is to be held on a date that is less than 50 days after the date (the "**Notice Date**") that is the earlier of the date that a notice of meeting is filed for such meeting and the date on which the first public announcement of the date of such meeting was made, notice may be given not later than the close of business on the tenth day following the Notice Date; and (b) in the case of a special meeting (which is not also an annual meeting) of Shareholders called for the purpose of electing Directors (whether or not called for other purposes), not later than the close of business on the fifteenth day following the Notice Date.

The Advance Notice Provisions also stipulate that certain information about any proposed nominee and the nominating Shareholder be included in such a notice in order for it to be valid. To be in proper written form, a nominating Shareholder's notice to the Directors must set forth, among other things: (a) as to each person whom the nominating Shareholder proposes to nominate for election as a Director: (i) the name, age, business address and residential address of the person; (ii) the principal occupation or employment of the person for the past five years; (iii) the status of the person as a "resident Canadian" (as defined in the OBCA); (iv) the class or series and number of shares which are controlled or which are owned beneficially or of record by the person as of the record date for the meeting of Shareholders (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice; (v) full particulars regarding any contract, agreement, arrangement, understanding or relationship (collectively, "**Nominee Arrangements**"), including without limitation financial, compensation and indemnity related Nominee Arrangements, between the proposed nominee or any associate or affiliate of the proposed nominee and any nominating Shareholder or any of its representatives; and (vi) any other information relating to the person that would be required to be disclosed in a dissident's proxy circular in connection with solicitations of proxies for election of Directors pursuant to applicable securities laws; and (b) as to the nominating Shareholder giving the notice: any proxy, contract, arrangement, understanding or relationship pursuant to which such nominating Shareholder has a right to vote any shares and any other information relating to such nominating Shareholder that would be required to be made in a dissident's proxy circular in connection with solicitations of proxies for election of Directors pursuant to applicable securities laws. The Company may require any proposed nominee to furnish such other information as may reasonably be required by the Company to determine the eligibility of such proposed nominee to serve as a Director who is independent of the Company within the meaning of National Instrument 52-110 – *Audit Committees* (an "**Independent Director**") or that could be material to a reasonable Shareholder's understanding of the independence, or lack thereof, and qualification of such proposed nominee.

The chairperson of the Shareholder meeting shall have the power and duty to determine whether a nomination was made in accordance with the procedures set forth in the foregoing provisions and, if any proposed nomination is not in compliance with such foregoing provisions, the discretion to declare that such defective nomination shall be disregarded.

Notwithstanding the foregoing, the Directors may, in their sole discretion, waive any requirement in the Advance Notice Provisions.

The Advance Notice Provisions are intended to: (a) facilitate orderly and efficient annual general or, where the need arises, special meetings; (b) ensure that all Shareholders receive adequate notice of Board nominations and sufficient information with respect to all nominees; and (c) allow Shareholders to register an informed vote.

A copy of the Company's by-laws is available on SEDAR at www.sedar.com.

## AUDITOR AND AUDIT COMMITTEE INFORMATION

### Audit Committee Charter

The Audit Committee operates under the Charter of the Audit Committee set out at Appendix A hereto, pursuant to which the committee assists the Board in fulfilling its oversight responsibilities with respect to: financial reporting and disclosure; ensuring that an effective risk management and financial control framework has been designed, implemented and tested by management of the Company; external audit processes; helping Directors meet their responsibilities; providing better communication between Directors and external auditors; enhancing the independence of the external auditors; increasing the credibility and objectivity of financial reports; and strengthening the role of Directors by facilitating in-depth discussions among Directors, management and the external auditors regarding significant issues involving judgment and impacting quality controls and reporting.

### Composition of the Audit Committee

The Audit Committee consists of Mr. Tappin (Chair), Ms. Howell and Mr. Winograd, each of whom is considered "independent" for purposes of audit committees and "financially literate" within the meaning of National Instrument 52-110 – *Audit Committees*.

In addition to each member's general business experience, the education and experience of each Audit Committee member that is relevant to the performance of his or her responsibilities as an Audit Committee member is as follows:

*Todd Tappin* provides private strategic consulting to a cross section of companies and private equity firms. Previously, he was the President and Chief Financial Officer of TechStyle Inc. (a privately held fashion company), a position he held from July 2016 to November 2018. Previously, he was the Chief Operating Officer and Chief Financial Officer of The Rubicon Project, Inc. (a publicly traded technology company), a position he held since 2013. Previously, Mr. Tappin was a Managing Director of The Gores Group, a Los Angeles-based private equity firm from January 2009 to October 2010. He was the founding Chief Financial Officer of Overture, the pioneer of paid search which became a publicly traded company and was ultimately acquired by Yahoo!. Prior to Overture, Mr. Tappin spent six years as a senior executive at 21st Century Fox / News Corporation, an American multi-national mass media company, as Senior Vice President of Finance and General Manager. Mr. Tappin previously was a senior auditor at Deloitte, Haskins and Sells (now known as Deloitte LLP) and has a Bachelor of Science degree in Business Administration from the University of Colorado.

*Dina R. Howell* is a corporate director. She was the Chief Executive Officer of Saatchi & Saatchi X, a shopper marketing agency, from 2010 to July 2015. Previously Ms. Howell held a variety of positions during her 22-year career at Procter & Gamble, a global consumer products company, ultimately serving as Vice President, Global Media and Brand Operations. She serves on the board of directors of Give Kids the World. Ms. Howell also does independent business consulting. Ms. Howell graduated from The University of Toledo in Toledo, Ohio with a Bachelor of Business Administration in June 1984.

*Charles Winograd* is Senior Managing Partner of Elm Park Capital Management (a mid-market lending limited partnership) and is also President of Winograd Capital Inc. (an external consulting and private investment firm). From 2001 to 2008, Mr. Winograd was Chairman and Chief Executive Officer of RBC Capital Markets. He was also President and Chief Operating Officer of RBC Dominion Securities from 1998 to 2001. He also served as Deputy Chairman and Director of RBC Dominion Securities from 1996 to 1998, following its acquisition of Richardson Greenshields. From 1971, Mr. Winograd held several progressively senior positions with Richardson Greenshields and predecessor companies becoming President and Chief Executive Officer in 1987 and Chairman and Chief Executive Officer in 1991. Mr. Winograd is presently on the boards of TMX Group Ltd., where he is Chairman, James Richardson and Sons Limited and Titan Holdings. He is also on the Board of Trustees for RioCan Real Estate Investment Trust and is a Management Advisor with RP Investment Advisors. In addition, Mr. Winograd is a director of Sinai Health System and was on the Canadian federal government's Advisory Council for Promoting Women on Boards. Mr. Winograd is a past Chairman of the Investment Dealers Association of Canada. Mr. Winograd received a Bachelor of Arts in Economics from the University of Manitoba and a Master of Business Administration degree from the Richard Ivey School of Business at Western University. He earned a Chartered Financial Analyst designation in 1979.

**Policies and Procedures for the Engagement of Non-audit Services**

The Audit Committee is responsible for the pre-approval of all non-audit services to be provided to the Company or its subsidiary entities. The Audit Committee may delegate the authority to pre-approve non-audit services, provided such delegation is permitted by law. At least annually, the Audit Committee will review and confirm the independence of the auditor by obtaining statements from the auditor on relationships between the auditor and the Company, including non-audit services.

**Auditor's Fees**

Deloitte LLP is the Company's auditor and has served in such capacity continuously for the past 19 years. For the fiscal years ended December 31, 2019 and December 31, 2018, the Company was billed the following fees by Deloitte LLP:

| (US$ millions) | Fiscal year ended December 31, 2019 | Fiscal year ended December 31, 2018 |
|---|---|---|
| Audit fees | $3.0 | $2.2 |
| Audit-related fees(1) | $0.2 | $0.1 |
| Tax fees(2) | $0.9 | $0.4 |
| **Total** | $4.1 | $2.7 |

(1) Audit-related fees in each of 2019 and 2018 were for accounting related matters.
(2) Tax fees in each of 2019 and 2018 were for tax advice and tax planning.

## RISK FACTORS

*An investment in securities of the Company involves significant risks. Investors should carefully consider the risks described below, the other information described elsewhere in this Annual Information Form and those risks set out in the Company's management's discussion and analysis ("**MD&A**") for the year ended December 31, 2019 (as updated by subsequent interim MD&A) before making a decision to buy securities of the Company. If any of the following or other risks occur, the Company's business, prospects, financial condition, financial performance and cash flows could be materially adversely impacted. In that case, the ability of the Company to make distributions to holders of Subordinate Voting Shares could be adversely affected, the trading price of securities of the Company could decline and investors could lose all or part of their investment in such securities. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the below described or other unforeseen risks.*

*If Spin Master does not create original, or enhance existing, products, brands and entertainment properties that satisfy consumer preferences, and anticipate, initiate and capitalize on developments in its industry, the Company's business will suffer.*

Spin Master depends on its ability to innovate and sell original products, brands and entertainment properties and to identify changing consumer sentiments that respond to such changes on a timely basis. Spin Master also relies on its ability to identify third-party entertainment media that is likely to be popular with consumers and license rights to such media to incorporate into the Company's products. Spin Master's ability to maintain current sales, and increase sales or establish sales with new, innovative products, will depend on its ability to satisfy play preferences, enhance existing products, engineer, develop, introduce and achieve market acceptance of its original products, brands and entertainment properties. If the Company is unable to anticipate consumer preferences, its products, brands and entertainment properties may not be accepted by children, parents, or families, demand for the Company's products, brands and entertainment properties could decrease and Spin Master's business, financial condition and performance could be materially and adversely affected.

Spin Master's business and financial performance depend largely upon the appeal of its products, brands and entertainment properties. Failure to anticipate, identify and react to changes in children's interests and consumer preferences could significantly lower sales of its products, brands and entertainment properties and harm its revenues and profitability. This challenge is more difficult with the ever increasing utilization of technology and digital media in entertainment offerings, and the increasing breadth of entertainment available to consumers. Evolving consumer tastes and shifting interests, coupled with changing and expanding sources of entertainment and consumer products and properties which compete for children's and families' interest and acceptance, create an environment in which some products and properties can fail to achieve consumer acceptance, and other products and properties can be popular during a certain period of time but then be rapidly replaced. The preferences and interests of children and families evolve quickly, can change drastically from year to year and season to season and are difficult to anticipate. Significant, sudden shifts in demand are caused by "hit" toys, technologies and trends, which are often unpredictable. Even the Company's successful brands and products typically have a relatively short period of high demand followed by a decrease in demand as the product matures or is superseded by newer technologies and / or brands and products. A decline in the popularity of the Company's existing products, brands and entertainment properties, or the failure of Spin Master's original products, brands and entertainment properties to achieve and sustain market acceptance with retailers and consumers, could significantly lower the Company's revenues and operating margins, which would harm Spin Master's business, financial condition and performance.

*The industries in which Spin Master operates are highly competitive and the Company's inability to compete effectively may materially and adversely impact its business, financial condition and performance.*

Spin Master operates in industries characterized by intense competition. The Company competes domestically and internationally with numerous large and small toy and game companies, as well as other children's entertainment companies. Low barriers to entry enable new competitors to quickly establish themselves with only a single popular product. New participants with a popular product idea or property can gain access to consumers and become a significant source of competition for the Company. Spin Master's competitors' products may achieve greater market acceptance than the Company's products and, in doing so, may potentially reduce the demand for the Company's products, brands or properties. Spin Master's competitors have obtained and are likely to continue to obtain licenses that overlap with the Company's licenses with respect to products, geographic areas and markets. Spin Master may not be able to obtain adequate shelf space in retail stores to support or expand its brands or products, and the Company may not be able to continue to compete effectively against current and future competitors.

In addition, Spin Master's toys and other products compete with the offerings of consumer electronics, digital media and social media companies. The level of this competition has increased due to increased use by children of tablet devices and mobile phones, and accelerated age compression whereby children are outgrowing categories of toys and other children's products at younger ages. The growing importance of digital media, and the heightened connection between digital media and consumer interest, has further increased the ability for new participants to enter Spin Master's markets, and has broadened the array of companies Spin Master competes with which can become a significant source of competition for the Company in a very short period of time. These existing and new competitors may be able to respond more rapidly than Spin Master to changes in consumer preferences. Spin Master's competitors' products may achieve greater market acceptance than the Company's products and potentially reduce demand for the Company's products, lower its revenues and lower its profitability.

Spin Master also faces competition in the entertainment industry. Some of the Company's competitors in the content market have interests in multiple media businesses which are often vertically integrated. Spin Master's ability to compete in this market depends on a number of factors, including its ability to develop high quality and popular entertainment content, adapt to new technologies and distribution platforms and achieve widespread distribution.

Some of Spin Master's competitors have longer operating histories, significantly greater financial, marketing and other resources, greater economies of scale, more long-standing brands and products and greater name recognition. The Company may be unable to compete with them in the future. If Spin Master fails to compete, its business, financial condition and performance could be materially and adversely affected.

*Spin Master's failure to market or advertise products could have a material adverse effect on the Company's business, financial condition and performance.*

Spin Master's products are marketed worldwide through a diverse spectrum of advertising and promotional programs. The Company's ability to sell products is largely dependent upon the success of these programs. If Spin Master does not market its products, sales could decline or if media or other advertising or promotional costs increase, Spin Master's costs could increase, which could have a material adverse effect on the Company's business, financial condition and performance. Additionally, loss of television or media support related to any of the Company's products may decrease the number of products it sells and harm its business, financial condition and performance.

*Spin Master's business is seasonal and therefore its annual financial performance depends, in large part, on its sales relating to the holiday shopping season. As retailers become more efficient in their control of inventory levels and give shorter lead times for production, failures to predict demand and possible transportation, production or other disruptions during peak demand times may affect the Company's ability to deliver products in time to meet retailer demands.*

Seasonality factors cause Spin Master's operating results to fluctuate significantly from quarter to quarter. A majority of the Company's sales occur during the third and fourth quarters. Generally, the first quarter is the period of lowest shipments and revenues in the toy industry and therefore, the least profitable because of certain fixed costs. This seasonality has increased over time, as retailers become more efficient in their control of inventory levels through inventory management techniques. Spin Master's failure to predict levels of consumer demand surrounding the holiday season may result in under-producing popular products and overproducing underperforming items, which, in either case, would adversely affect the Company's business, financial condition and performance. Spin Master's results of operations may also fluctuate as a result of factors such as the timing of new products or new products that its competitors introduce in the marketplace, the advertising activities of its competitors and the emergence of new market entrants. In addition, due to the seasonal nature of Spin Master's business, the Company would be materially and adversely impacted, in a manner disproportionate to the impact on a company with sales spread more evenly throughout the year, by unforeseen events, such as public health crises, terrorist attacks, adverse weather conditions or economic shocks that harm the retail environment or consumer buying patterns during the Company's key selling season, or by events such as strikes, port delays or supply chain interruptions, in the second half of the year.

If Spin Master fails to meet transportation schedules, it could damage the Company's relationships with retailers, increase the Company's distribution and logistics costs or cause sales opportunities to be delayed or lost. In order to be able to deliver its merchandise on a timely basis, Spin Master needs to maintain adequate inventory levels of the desired products. If the Company's inventory forecasting and production planning processes result in Spin Master manufacturing inventory in excess of the levels demanded by its customers, the Company could be required to record inventory write-downs for excess and obsolete inventory, which could materially and adversely affect the Company's financial performance. If the inventory of Spin Master products held by its retailers is too high, they may not place or may reduce orders for additional products, which could unfavourably impact the Company's future sales and materially and adversely affect its financial performance.

*Failure to protect or enforce Spin Master's IP rights and claims by third parties that the Company is infringing their IP rights could materially and adversely affect Spin Master's business, financial condition and performance.*

Spin Master relies on a combination of patents, copyrights, trademarks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect its IP and proprietary rights. Contractual arrangements and other steps the Company has taken to protect its IP may not prevent misappropriation of its IP or deter independent third-party development of similar products. The steps Spin Master has taken may not prevent unauthorized use of its IP, particularly in foreign countries where the Company does not hold patents or trademarks or where the laws may not protect its IP as fully as in North America. Some of Spin Master's products and product features have limited IP protection, and, as a consequence, the Company may not have the legal right to prevent others from reverse engineering or otherwise copying and using these features in competitive products. Monitoring the unauthorized use of the Company's IP is costly, and any dispute or other litigation, regardless of the outcome, may be costly and time consuming and may divert the Company's resources.

Additionally, Spin Master has registered various domain names relating to some of its brands and products. If the Company fails to maintain these registrations, or if a third party acquires domain names similar to the Company's and engages in a business that may be confusing to the Company's users and customers, Spin Master's revenues may decline and it may incur additional expenses in maintaining its brands.

Spin Master periodically receives claims of infringement or otherwise becomes aware of potentially relevant patents, copyrights, trademarks or other IP rights held by other parties. Responding to any infringement claim, regardless of its validity, may be costly and time-consuming and may divert the Company's resources. If Spin Master or its licensors are found to be infringing on the IP rights of any third-party, Spin Master or its licensors may be required to obtain a license to use those rights, which may not be obtainable on reasonable terms, if at all. The Company also may be subject to significant damages or injunctions against the development and sale of some of its products or against the use of a trademark or copyright in the sale of some of its products. Spin Master's insurance does not cover all types of IP claims and insurance levels for covered claims may not be adequate to indemnify the Company against all liability, which could materially and adversely harm its business, financial condition and performance.

*Spin Master licenses IP rights from third-party owners. Failure of such owners to properly maintain or enforce the IP underlying such licenses could have a material adverse effect on the Company's business, financial condition and performance. The Company's licensors may also seek to terminate Spin Master's license.*

Spin Master is a party to a number of licenses that give the Company rights to third-party IP that is necessary or useful to the Company's business. Spin Master's success will depend in part on the ability of its licensors to obtain, maintain and enforce its licensed IP, in particular, those IP rights to which the Company has secured exclusive rights. Without protection for the IP Spin Master licenses, other companies might be able to offer substantially identical products for sale, which could have a material adverse effect on the Company's business, financial condition and performance.

One or more of the Company's licensors may allege that Spin Master has breached its license agreement with them, and accordingly seek to terminate Spin Master's license. If successful, this could result in the Company's loss of the right to use the licensed IP, which could adversely affect the Company's ability to commercialize its technologies, products or services, as well as have a material adverse effect on its business, financial condition and performance.

*Spin Master may not be able to sustain or manage its growth strategy, which may prevent the Company from increasing its net revenues.*

Historically, Spin Master has experienced growth in its product lines which at times has been rapid. The Company's growth strategy calls for it to continuously develop and diversify its business by introducing original products, innovating and refining its existing product lines and expanding into international markets, entering into additional license agreements, and acquiring other companies, which will place additional demands upon the Company's management, operational capacity and financial resources and systems. The increased demand upon management may necessitate Spin Master's recruitment and retention of qualified personnel. This can be particularly difficult when unexpected, significant, sudden shifts in demand are caused by "hit" toys and trends. There can be no assurance that the Company will be able to recruit and retain qualified personnel or expand and manage its operations effectively and profitably. Implementation of Spin Master's growth strategy is subject to risks beyond its control, including competition, market acceptance of original products, changes in economic conditions, its ability to obtain or renew licenses on commercially reasonable terms and its ability to finance increased levels of accounts receivable and inventory necessary to support its sales growth, if any. Accordingly, there can be no assurance that the Company's growth strategy will be successful or that it will be able to achieve its targeted future sales growth. The lack of success in the Company's growth strategy may have a material and adverse effect on its business, financial condition and performance.

*Spin Master's dependence on third-party manufacturers, distributors, distribution centres and logistics service providers presents risks to the Company's business and exposes it to risks associated with international operations.*

A majority of Spin Master's products are manufactured by third-party manufacturers, most of which are located in Asia and primarily in China, and transported, stored and distributed by third parties on its behalf. The Company's operations could be adversely affected if the Company lost its relationship with any of its third-party service providers, or if there was any material failure, inadequacy or interruption resulting from its third-party service providers due to factors beyond the Company's control. Although Spin Master's external sources of manufacturing and its distribution centres and logistics service providers can be shifted over a period of time to alternative sources, should such changes be necessary, the Company's operations could be disrupted, potentially for a significant period of time, while alternative sources were secured, and significant capital investments could be required to remediate the problem.

As a result of Spin Master's dependence on third-party manufacturers, any difficulties encountered by one of the Company's third-party manufacturers that results in production delays, cost overruns or the inability to fulfill its orders on a timely basis, including political disruptions, labour difficulties and other factors beyond the Company's control, could adversely affect the Company's ability to deliver its products to its customers, which in turn could harm the Company's reputation and adversely affect its business, financial condition and performance. Similarly, Spin Master relies on third-party distribution centres and logistics service providers to transport its products to the markets in which they are sold and on third-party distributors to distribute those products within those markets. Any disruption affecting the ability of the Company's third-party service providers to timely deliver or distribute its products to its customers could cause delays in product sales, cause customers to cancel orders, have a material adverse effect on Spin Master's revenue and profitability, and harm its reputation.

Spin Master's significant use of third-party manufacturers outside of North America also exposes the Company to risks, including:

- currency fluctuations;
- limitations on the repatriation of capital;
- potential challenges to the Company's transfer pricing determinations and other aspects of its cross-border transactions which may impact income tax expense;
- political instability, civil unrest and economic instability;
- greater difficulty enforcing IP rights and weaker laws protecting such rights;
- requirements to comply with different laws in varying jurisdictions, which laws may dictate that certain practices that are acceptable in some jurisdictions are not acceptable in others, and changes in governmental policies;
- natural disasters and greater difficulty and expense in recovering from them;
- difficulties in moving materials and products from one country to another, including port congestion, strikes and other transportation delays and interruptions;
- difficulties in controlling the quality of raw materials and components used to manufacture the Company's products, which may lead to public health and other concerns regarding its products;
- changes in international labour costs, labour strikes, disruptions or lock-outs; and
- the imposition of tariffs or other protectionist measures, or the breakdown of trade relations.

Due to Spin Master's reliance on international sourcing of manufacturing, its business, financial condition and performance could be significantly and materially harmed if any of the risks described above were to occur.

Spin Master requires its third-party manufacturers and distributors to comply with Spin Master's Code of Conduct, which is designed to prevent products manufactured by or for the Company from being produced under inhumane or exploitive conditions. Spin Master's Code of Conduct addresses a number of issues, including work hours and compensation, health and safety, and abuse and discrimination. In addition, the Company requires that its products supplied by third-party manufacturers or distributors be produced or distributed in compliance with all applicable laws and regulations, including consumer and product safety laws in the markets where those products are sold. The Company has the right, both directly and through the use of outside monitors, to monitor compliance by its third-party manufacturers and distributors with Spin Master's Code of Conduct and other manufacturing requirements. In addition, the Company conducts quality assurance testing on its products, including products manufactured or distributed for the Company by third parties. Notwithstanding these requirements and Spin Master's monitoring and testing of compliance with them, there remains the risk that one or more of the Company's third-party manufacturers or distributors will not comply with Spin Master's requirements and that Spin Master will not immediately discover such non-compliance. Any failure of the Company's third-party manufacturers or distributors to comply with labour, consumer, product safety or other applicable requirements in manufacturing or distributing products for the Company could result in damage to Spin Master's reputation, harm sales of its products and potentially create liability for Spin Master and its business, financial condition and performance could be materially and adversely impacted.

*Disruptions in Spin Master's manufacturing operations or supply chain, or in the business where the Company's products are sold, due to public health pandemic or other public health crisis have adversely affected and could further adversely affect Spin Master's business, financial position, sales, and results of operations.*

The Company owns, operates and manages manufacturing facilities and utilizes third-party manufacturers and suppliers in China, as well as in Vietnam, India, Mexico, France and the U.S. Outbreaks of communicable diseases have also been known to occur in certain of these countries and around the world. In the past, outbreaks of avian flu have been significantly concentrated in Asia, particularly in China. More recently, a strain of coronavirus (known as COVID-19) surfaced in Wuhan, Hubei Province, China, resulting in a public health crisis that has spread worldwide. Disruptions from public health crises such as these result from, among other things, workers contracting diseases, restrictions on factory openings, restrictions on travel, restrictions on shipping and shopping, and the closure of critical infrastructure. The design, development, manufacture, distribution and sale of the Company's products has suffered and could further suffer if a significant number of the Company's employees or the employees of its third-party manufacturers, their suppliers, or of businesses where the Company's products are sold, contract communicable diseases such as these, or if the Company, the Company's third-party manufacturers, their suppliers or businesses where the Company's products are sold are adversely affected by other impacts of such diseases. In addition, the contingency plans the Company has developed to help mitigate the impact of disruptions in its operations, have not and may not prevent its business, financial position, sales, and results of operations from being adversely affected by a significant disruption to its operations, suppliers or demand for the Company's products.

*Spin Master's sales are concentrated with a small number of retailers that do not make long-term purchase commitments. Consequently, economic difficulties or changes in the purchasing strategies and patterns of those retailers could have a material adverse effect on the Company's business, financial condition and performance.*

A small number of retailers account for a large share of Spin Master's total sales. In 2019, the three largest customers collectively accounted for approximately 48.0% of the Company's Gross Product Sales. This concentration means that if one or more of Spin Master's major customers were to experience difficulties in fulfilling their obligations to the Company, cease doing business with the Company, significantly reduce the amount of their purchases from the Company, favour competitors or new entrants, return substantial amounts of Spin Master's products, favour its competitors or increase their competition with Spin Master by expanding their private label product lines or seek material financial contributions from the Company towards price reductions at the retail level, the Company's business, financial condition and performance could suffer. In addition, increased concentration among Spin Master's customers could also negatively impact its ability to negotiate higher sales prices for its products, could result in lower margins and could reduce the number of products the Company would otherwise be able to bring to market. Retailers do not make any long-term commitments to the Company regarding purchase volumes and make all purchases by delivering one-time purchase orders. Any customer could reduce its overall purchases of the Company's products, reduce the number and variety of the Company's products that it carries and the shelf space allotted for Spin Master's products, or otherwise seek to materially change the terms of their business relationship with Spin Master at any time. Any such change could significantly harm the Company's business, financial condition and performance. Similarly, liquidity problems at one or more of the Company's key customers could expose the Company to losses from bad debts and negatively impact its business, financial condition and performance. Spin Master's sales to retailers are typically made on credit without collateral. There is a risk that customers will not pay, or that payment will be delayed, because of bankruptcy or other factors beyond Spin Master's control, which could increase its exposure to losses from bad debts and increase its cost of sales. In addition, if these or other retailers were to cease doing business as a result of bankruptcy, or significantly reduce the number of stores they operate, it could have a material adverse effect on the Company's business, financial condition and performance. Spin Master's credit insurance may not cover all types of claims against customers and insurance levels for covered claims may not be adequate to indemnify the Company against all liability, which could materially and adversely harm the Company's business, financial condition and performance.

*Uncertainty and adverse changes in general economic conditions may negatively affect consumer spending, which could have a material adverse effect on Spin Master's revenue and profitability.*

Current and future conditions in the economy have an inherent degree of uncertainty. As a result, it is difficult to estimate the level of growth or contraction for the economy as a whole. It is even more challenging to estimate growth or contraction in various parts, sectors and regions of the economy, including the many different markets in which Spin Master participates. The Company's budgeting and forecasting are dependent upon estimates of demand for its products and growth or contraction in the markets it serves. Economic uncertainty complicates reliable estimation of future income and expenditures. Adverse changes may occur as a result of weakening global economic conditions, tightening of consumer credit, falling consumer confidence, increasing unemployment, declining stock markets or other factors affecting economic conditions generally. These changes may negatively affect demand for Spin Master's products, increase exposure to retailers with whom it does business, increase the cost and decrease the availability of financing to fund Spin Master's working capital needs, or increase costs associated with manufacturing and distributing products, any of which could have a material and adverse effect on the Company's revenue and profitability.

Consumer spending habits, including spending on Spin Master products, are affected by, among other things, prevailing economic conditions, levels of employment, fuel prices, salaries and wages, the availability of consumer credit, consumer confidence and consumer perception of economic conditions. A general economic slowdown in Canada, the U.S. and other parts of the world could decrease demand for the Company's products which would adversely affect its revenue; an uncertain economic outlook may adversely affect consumer spending habits and customer traffic, which may result in lower revenue. A prolonged global economic downturn could have a material negative impact on the Company's business, financial condition and performance.

In addition to experiencing potentially lower revenues during times of economic difficulty, in an effort to maintain sales during such times, Spin Master may need to reduce the price of its products, increase promotional spending and/or sales allowances, offer incentives or take other steps to encourage retailer and consumer purchase of its products. Those steps may lower the Company's net revenues or increase its costs, thereby decreasing its operating margins and lowering its profitability. These challenges can be exacerbated if customers accumulate excess retail inventories over time due to their purchases of Spin Master's products exceeding sales of those products to ultimate consumers. It can then take the Company significant time, working with retailers, to reduce those excess retail inventories, and in the interim its sales of new products can be negatively impacted.

*Failure to maintain existing relationships, or to develop new relationships, with inventors and entertainment content collaborators could have a material adverse effect on Spin Master's business, financial condition and performance.*

Spin Master's relationships with inventors are a critical aspect of the Company's product development. A significant portion of Spin Master's product ideas have been sourced from inventors and developed by the Company. If Spin Master fails to maintain existing relationships or to develop new relationships within the inventor community or if the Company experiences an adverse change in the perception of the Company by inventors, Spin Master may receive fewer product concepts from inventors. This would adversely impact Spin Master's ability to introduce new, innovative brands and products, which in turn would materially and adversely harm its business, financial condition and performance.

Spin Master's relationships with entertainment collaborators, including writers, content developers, broadcasters and directors, are a critical aspect of the Company's development of its entertainment properties, brands and content. A portion of Spin Master's entertainment properties, brands and content have been sourced from external collaborators. If Spin Master fails to maintain existing relationships or to develop new relationships with entertainment collaborators or if the Company experiences an adverse change in the perception of the Company by these entertainment collaborators, Spin Master may receive fewer concepts. This would adversely impact Spin Master's ability to introduce new entertainment properties, brands and content, which in turn would materially and adversely harm its business, financial condition and performance.

*Failure to leverage Spin Master's portfolio of franchises effectively across entertainment and media platforms, maintain relationships with key television and motion picture studios, and entertainment and media companies could have a material adverse effect on the Company's business, financial condition and performance.*

Complementing Spin Master's product offerings with entertainment and media initiatives is an integral part of the Company's growth strategy. Spin Master invests in interactive media and other entertainment initiatives, extending the Company's brands across multiple platforms. Establishing and maintaining relationships with key broadcasters and motion picture studios, and entertainment and media companies are critical to the successful execution of these initiatives. The Company's failure to execute effectively on these initiatives could result in its inability to recoup its investment and harm the related toy brands employed in these initiatives. Such failures could have a material adverse effect on the Company's business, financial condition and performance.

*Risks Related to the Entertainment Industry.*

The entertainment industry involves a substantial degree of risk. Acceptance of children's entertainment programming represents a response not only to the production's artistic components, but also the quality and acceptance of other competing programs released into the marketplace at or near the same time, the availability of alternative forms of children's entertainment and leisure time activities, general economic conditions, public tastes generally and other intangible factors, all of which could change rapidly or without notice and cannot be predicted with certainty. There is a risk that some or all of Spin Master's programming will not be purchased or accepted by the public generally, resulting in a portion of costs not being recouped or anticipated direct and indirect profits not being realized, which could have a material and adverse effect on the Company's business, financial condition and performance. There can be no assurance that revenue from existing or future programming will replace loss of revenue associated with the cancellation or unsuccessful commercialization of any particular production or that Spin Master's entertainment programming will generate product sales.

The business of producing and distributing television programs is highly competitive. There are numerous suppliers of entertainment content and Spin Master faces intense competition with other producers and distributors, many of whom are substantially larger and have greater resources. Further, vertical integration of the television broadcast industry worldwide and the creation and expansion of new networks, which create a substantial portion of their own programming, has decreased access for programs produced by third-party production companies. The Company competes with other television production companies for ideas and storylines created by third parties as well as for access to animation studios, writers, producers, actors, directors and other personnel required for a production. Spin Master may not be successful in any of these efforts which could have a material and adverse effect on its business, financial condition and performance.

Spin Master also faces competition from both regulated and unregulated players using existing or new technologies and from illegal services. The rapid deployment of new technologies, services and products have reduced the traditional lines between internet and broadcast services and further expanded the competitive landscape. The Company may also be affected by changes in customer discretionary spending patterns, which in turn are dependent on consumer confidence, disposable consumer income and general economic conditions. New or alternative media technologies and business models, such as video-on-demand, subscription-video-on-demand, high-definition television, personal video recorders, mobile television, internet protocol television, over-the-top internet-based video entertainment services, connected televisions, virtual multichannel programming distributors, audio streaming platforms, podcasting and direct-to-home satellite compete for audiences. As well, mobile devices like smartphones and tablets allow consumers to access content anywhere, anytime and are creating consumer demand for mobile, portable or free content. These technologies and business models may increase audience fragmentation. Technological developments may also disrupt traditional distribution platforms by enabling content owners to provide content directly to consumers, thus bypassing traditional content aggregators.

Distributors' decisions regarding the timing of release and promotional support of Spin Master's television programs are important in determining the success of these programs. The Company does not ultimately control the timing and manner in which its distributors distribute the Company's television programs. Any decision by those distributors not to distribute or promote one of Spin Master's television programs or to promote competitors' programs to a greater extent than they promote Spin Master's programs could have a material and adverse effect on the Company's business, financial condition and performance.

Production of film and television programs requires a significant amount of capital. Unforeseen events such as labour disputes, changes related to technology, special effects or other aspects of production, shortage of necessary equipment, or other unforeseen events affecting aspects of production may cause cost overruns and delay or frustrate completion of a production. Although Spin Master has historically completed its productions within budget, there can be no assurance that it will continue to do so. The Company currently maintains insurance policies covering certain of these risks. There can be no assurance that any overrun resulting from any occurrence will be adequately covered or that such insurance and completion bonds will continue to be available or, if available on terms acceptable to Spin Master. In the event of substantial budget overruns, there can be no assurance that such costs will be recouped, which could have a material and adverse effect on the Company's business, financial condition and performance.

Financial risks exist in productions relating to tax credits. There can be no assurance that industry funding assistance programs and government tax credits which Spin Master may access in Canada and internationally from time to time, including those sponsored by various European, Australian and Canadian governmental agencies, will not be reduced, amended or eliminated or that Spin Master's production projects will continue to qualify for them. Any change in the policies of those countries in connection with their incentive programs could have a material and adverse effect on the Company's business, financial condition and performance.

*International sales are subject to various risks and failure to implement the international growth strategy could have a material adverse effect on the Company's business, financial condition and performance.*

Spin Master currently relies on international sales of its products and expects to do so to a greater extent in the future as it continues to expand its business. The Company believes that its revenue and financial performance will depend in part upon its ability to increase sales in international markets. Implementation of Spin Master's international growth strategy is subject to risks beyond its control, and accordingly, there can be no assurance that the Company's international growth strategy will be successful. The lack of success in the Company's international growth strategy may have a material and adverse effect on its business, financial condition and performance.

International sales are subject to various risks, including: exposure to currency fluctuations; political and economic instability; increased difficulty of administering business; and the need to comply with a wide variety of international and domestic laws and regulatory requirements. There are a number of risks inherent in the Company's international activities, including: unexpected changes in Canadian, U.S. or other governmental policies concerning the import and export of goods; services and technology and other regulatory requirements; tariffs and other trade barriers; costs and risks of localizing products for foreign languages; longer accounts receivable payment cycles; limits on repatriation of earnings; the burdens of complying with a wide variety of non-Canadian or U.S. laws; and difficulties supervising and managing local personnel. The financial stability of non-Canadian or U.S. markets could also affect Spin Master's international sales. In addition, international income may be subject to taxation by more than one jurisdiction, which could also have a material adverse effect on the Company's financial performance. Such factors may have a material adverse effect on the Company's revenues and expenses related to international sales and, consequently, business, financial condition and performance.

*An increasing portion of Spin Master's business may come from new and emerging markets, and growing business in new and emerging markets presents additional challenges which could have a material adverse effect on the Company's business, financial condition and performance.*

Spin Master expects an increasing portion of its revenues to come from new and emerging markets, including China and Russia. Operating in new and emerging markets, each with its own unique consumer preferences and business climates, presents additional challenges that Spin Master must meet. In addition, sales and operations in new and emerging markets are subject to other risks associated with international operations. Such risks include, but are not limited to: complications in complying with different laws in varying jurisdictions; dealing with changes in governmental policies and the evolution of laws and regulations that impact Spin Master's product offerings and related enforcement; difficulties understanding the retail climate, consumer trends, local customs and competitive conditions in foreign markets, which may be quite different from Canada and the U.S.; difficulties in moving materials and products from one country to another, including port congestion, strikes and other transportation delays and interruptions; potential challenges to Spin Master's transfer pricing determinations and other aspects of its cross border transactions; and the impact of tariffs, quotas, or other protectionist measures. Spin Master's business, financial condition and performance could be harmed if any of the risks described above are not appropriately managed, or if the Company is otherwise unsuccessful in managing its new and emerging market business.

*Spin Master's success depends on key personnel and without them the Company may be unable to maintain and expand its business.*

Spin Master's future success depends on the continued contribution of key personnel, including, designers, inventors, technical, sales, marketing and entertainment personnel. The loss of services of any of the Company's key personnel could harm its business. Recruiting and retaining skilled personnel is costly and highly competitive. If the Company fails to retain, hire, train and integrate qualified employees and contractors, it may not be able to maintain and expand its business.

*Product recalls, post-manufacture repairs of Spin Master's products, product liability claims, absence or cost of insurance, and associated costs could harm the Company's reputation, which could have a material adverse effect on the Company's business, financial condition and performance.*

Spin Master is subject to regulation by Health Canada, the U.S. Consumer Product Safety Commission and regulatory authorities and by similar consumer protection regulatory authorities in other countries in which Spin Master sells its products. These regulatory bodies have the authority to remove from the market, products that are found to be defective and present a substantial hazard or risk of serious injury or death. The Company has experienced, and may in the future experience, issues in relation to products that result in recalls, delays, withdrawals, or post-manufacture repairs or replacements of products.

Individuals have asserted claims, and may in the future assert claims, that they have sustained injuries from the Company's products, and Spin Master may be subject to lawsuits relating to these claims. There is a risk that these claims or liabilities may exceed, or fall outside of the scope of, Spin Master's insurance coverage as Spin Master does not maintain separate product recall insurance. The Company has recorded, and in the future may record, charges and incremental costs relating to recalls, withdrawals or replacements of its products, based on the Company's most recent estimates of retailer inventory returns, consumer product replacement costs, associated legal and other professional fees, and costs associated with advertising and administration of product recalls. As these current and expected future charges are based on estimates, they may increase as a result of numerous factors, many of which are beyond Spin Master's control, including the amount of products that may be returned by consumers and retailers, the number and type of legal, regulatory, or legislative proceedings relating to product recalls, withdrawals or replacements or product safety proceedings in Canada, the U.S. and elsewhere that may involve the Company, as well as regulatory or judicial orders or decrees in Canada, the U.S. and elsewhere that may require the Company to take certain actions in connection with product recalls.

Moreover, Spin Master may be unable to obtain adequate liability insurance in the future. Any of these issues could result in damage to the Company's reputation, diversion of development and management resources, reduced sales, and increased costs and could cause the Company's licensors to terminate or not renew its licenses, any of which could materially and adversely harm its business, financial condition and performance. Product recalls, withdrawals, or replacements may also increase the competition that Spin Master faces. Some competitors may attempt to differentiate themselves by claiming that their products are produced in a manner or geographic area that is insulated from the issues that preceded recalls, withdrawals or replacements of Spin Master's products. In addition, to the extent that the Company's competitors choose not to implement enhanced safety and testing protocols comparable to those that the Company and its third-party manufacturers have adopted, such competitors could enjoy a cost advantage that could enable them to offer products at lower prices than Spin Master.

Additionally, product recalls relating to Spin Master's competitors' products, post-manufacture repairs of their products and product liability claims against the Company's competitors may indirectly impact the Company's product sales even if its products are not subject to the same recalls, repairs or claims.

*The production and sale of private-label toys by the retailers with which Spin Master does business may result in lower purchases of the Spin Master's branded products by those customers.*

In recent years, retailers have been increasing the development of their own private-label products that directly compete with the products of their other suppliers, including children's entertainment companies. Some of the retailers with whom Spin Master does business sell private-label toys designed, manufactured and branded by the retailers themselves. The Company's customers may sell their private-label toys at prices lower than comparable toys sold by the Company, and, particularly in the event of strong sales of private-label toys, may elect to reduce their purchases of Spin Master's branded products. In some cases, retailers who sell these private-label toys are larger than Spin Master and have substantially more resources. An increase in the sale of private-label product by retailers could have a material adverse effect on the Company's business, financial condition and performance.

*Unfavourable resolution of litigation matters and disputes, including those arising from recalls, withdrawals or replacements of Spin Master's products, could have a material adverse effect on the Company's business, financial condition and performance.*

Spin Master is involved from time to time in litigation and disputes, including those arising from recalls, withdrawals or replacements of its products. Since outcomes of regulatory investigations, litigation and arbitration disputes are inherently difficult to predict, there is the risk that an unfavourable outcome in any of these matters could negatively affect the Company's business, financial condition and performance. Regardless of the outcome, litigation may result in substantial costs and expenses to Spin Master and significantly divert the attention of its management. The Company may not be able to prevail in, or achieve a favourable settlement of, pending litigation. In addition to pending litigation, future litigation, government proceedings, labour disputes or environmental matters could lead to increased costs or interruption of the Company's normal business operations.

*Failure to implement new initiatives or meet product introduction schedules could have a material adverse effect on Spin Master's business, financial condition and performance.*

Spin Master has undertaken, and in the future may undertake, initiatives to increase its efficiency, reduce its costs, improve the execution of its core business, globalize and extend its brands, develop or extend entertainment properties, leverage new trends, create new brands or franchises, offer new innovative products and technologies, enhance product safety, develop its employees, improve productivity, simplify processes, maintain customer service levels, drive sales growth, capitalize on its scale advantage and improve its supply chain. These initiatives involve investment of capital and complex decision-making, as well as extensive and intensive execution, and these initiatives may not succeed or there may be a delay in the anticipated timing of the launch of new initiatives. In addition, Spin Master may anticipate introducing a specific product, product line or brand at a certain time in the future. There is no guarantee that Spin Master will be able to manufacture, source and ship new or continuing products in a timely manner and on a cost-effective basis. Unforeseen delays or difficulties in the development process or significant increases in the planned cost of development for new products may cause the introduction date for products to be later than anticipated or, in some situations, may cause a product or new product introduction to be discontinued. Failure to implement any of these initiatives, or the delay of the anticipated launch, or the failure of any of these initiatives or launches to produce the results anticipated by management, could have a material adverse effect on the Company's business, financial condition and performance.

*A reduction or interruption in the delivery of raw materials, parts and components from Spin Master's suppliers or a significant increase in the price of supplies could negatively impact the Company's profit margins or result in lower sales.*

Spin Master's ability to meet customer demand depends in part on its ability to obtain timely and adequate delivery of materials, parts and components from Spin Master's suppliers. The Company has experienced shortages in the past, including shortages of raw materials and components, and may encounter these problems in the future. A reduction or interruption in supplies or a significant increase in the price of one or more supplies, such as fuel and resin (which is a petroleum-based product), could have a material adverse effect on the Company's business, financial condition and performance. Cost increases, whether resulting from shortages of materials or rising costs of materials, transportation, services or labour, could impact the profit margins on the sale of Spin Master's products. Due to market conditions, timing of pricing decisions and other factors, the Company may not be able to offset any of these increased costs by adjusting the prices of its products. Increases in prices of the Company's products could result in lower sales and have a material adverse effect on its financial condition and performance.

*Spin Master may not realize the full benefit of its licenses if the licensed material has less market appeal than expected and licenses may not be profitable to the Company if sales revenue from the licensed products are not sufficient to support the minimum guaranteed royalties.*

An integral part of Spin Master's business involves obtaining licenses to produce products utilizing various entertainment brands and content. As a licensee of entertainment-based properties, the Company has no guarantee that a particular brand or property will translate into a successful toy, entertainment brand or other product. Additionally, a successful brand may not continue to be successful or maintain a high level of sales. As well, popularity of licensed properties may not result in popular toys or the success of the properties with the public. The license agreements into which the Company enters usually require it to pay minimum royalty guarantees that may be substantial, and in some cases may be greater than the amount it earns from sales of the licensed brands. This could result in write-offs of significant amounts, which in turn could materially and adversely impact the Company's financial condition and performance. Acquiring or renewing licenses may require the payment of minimum guaranteed royalties that Spin Master considers to be too high to be profitable, which may result in losing licenses it currently holds when they become renewable under their terms, or missing business opportunities for new licenses. If the Company is unable to acquire or maintain successful licenses on advantageous terms, its business, financial condition and performance may be materially and adversely impacted.

*Spin Master's operating procedures and product requirements are subject to change and may increase costs, which may materially and adversely affect its relationship with vendors and make it more difficult for it to produce, purchase and deliver products on a timely basis to meet market demands. Future conditions may require the Company to adopt further changes that may increase its costs and adversely affect the Company's relationship with vendors.*

Spin Master's operating procedures and requirements for both its own manufacturing facilities and vendors, which are regularly monitored and which are subject to change, including by implementing enhanced testing requirements and standards, impose additional costs on both Spin Master and the vendors from whom it purchases products. These changes may also delay delivery of the Company's products. Additionally, changes in industry wide product safety guidelines may affect the Company's ability to sell its inventory and may negatively impact its business. Spin Master's relationship with existing vendors may be adversely affected as a result of these changes, making it more dependent on a smaller number of vendors. Some vendors may choose not to continue to do business with the Company or not to accommodate the Company's needs to the extent that they have done so in the past. Due to the seasonal nature of Spin Master's business and the demands of its customers for deliveries with short lead times, Spin Master depends upon the cooperation of its vendors to meet market demand for its products in a timely manner. Existing and future events may require the Company to impose additional requirements on its vendors that may adversely affect the Company's relationships with those vendors and its ability to meet market demand in a timely manner which may in turn have a material and adverse effect on the Company's business, financial condition and performance.

*Negative publicity and product reviews may negatively impact Spin Master's business, financial condition and performance.*

There has been a marked increase in the use of social media platforms and similar channels, including weblogs (blogs), social media websites and other forms of Internet-based communications that provide individuals with access to a broad audience of consumers and other interested persons. The availability and impact of information on social media platforms is virtually immediate and the accuracy of such information is not independently verified. The opportunity for dissemination of information, including inaccurate information, is seemingly limitless and readily available. Information concerning Spin Master or one or more of its products or employees may be posted on such platforms at any time. Information posted may be adverse to Spin Master's interests or may be inaccurate, each of which may harm the Company's reputation and business. The harm may be immediate without affording Spin Master an opportunity for redress or correction. Ultimately, the risks associated with any such negative publicity or incorrect information cannot be completely eliminated or mitigated and may materially and adversely impact its business, financial condition and performance.

*Spin Master may engage in acquisitions, mergers, or dispositions, which may affect the profit, revenues, profit margins or other aspects of its business. Spin Master may not realize the anticipated benefits of future acquisitions, mergers or dispositions to the degree anticipated, or such transactions could have a material adverse impact on the Company's business, financial condition and performance.*

Acquisitions have been a part of Spin Master's growth and have enabled it to further broaden and diversify its product offerings. The Company expects that in the future it will further expand its operations, brands, and product offerings through the acquisition of additional businesses, products or technologies. However, the Company may not be able to identify suitable acquisition targets or merger partners and the Company's ability to efficiently integrate large acquisitions may be limited by its lack of experience with them. If Spin Master is able to identify suitable targets or merger partners, it may not be able to acquire these targets on acceptable terms or agree to terms with merger partners. Also, Spin Master may not be able to integrate or profitably manage acquired businesses and may experience substantial expenses, delays or other operational or financial problems associated with the integration of acquired businesses. The Company may also face substantial expenses, delays or other operational or financial problems if it is unable to sustain the distribution channels and other relationships currently in place at an acquired business. The businesses, products, brands or properties the Company acquires may not achieve or maintain popularity with consumers, and other anticipated benefits may not be realized immediately or at all. Further, integration of an acquired business may divert the attention of the Company's management from its core business. In cases where Spin Master acquires businesses that have key individuals, Spin Master cannot be certain that those persons will continue to work for it after the acquisition or that they will continue to develop popular and profitable products. Loss of such individuals could materially and adversely affect the value of businesses that the Company acquires.

Acquisitions also entail numerous other risks, including but not limited to:

- unanticipated costs and legal liabilities;
- adverse effects on the Company's existing business relationships with its suppliers and customers;
- risk of entering markets in which the Company has limited or no prior experience;
- amortizing any acquired intangible assets; and
- difficulties in maintaining uniform standards, procedures, controls and policies.

Some or all of the foregoing risks could have a material adverse effect on Spin Master's business, financial condition and performance. In addition, any businesses, products or technologies the Company may acquire may not achieve anticipated revenues or income and the Company may not be able to achieve cost savings and other benefits that it would hope to achieve with an acquisition.

Acquisitions could also consume a substantial portion of Spin Master's available cash, could result in incurring substantial debt which may not be available on favourable terms, and could result in the Company assuming contingent liabilities. In addition, if the business, product or technologies the Company acquires are unsuccessful it would likely result in the incurrence of a write-down of such acquired assets, that could adversely affect Spin Master's financial performance. The Company's failure to manage its acquisition strategy could have a material adverse effect on its business, financial condition and performance.

Consistent with Spin Master's past practice and in the normal course, the Company may have outstanding non-binding letters of intent and / or conditional agreements or may otherwise be engaged in discussions with respect to possible acquisitions which may or may not be material. However, there can be no assurance that any of these letters, agreements and / or discussions will result in an acquisition and, if they do, what the final terms or timing of any acquisition would be.

*If Spin Master fails to maintain an effective system of internal controls, Spin Master may not be able to report its financial results or prevent fraud, which could harm the Company's financial performance and may cause investors to lose confidence in it.*

Spin Master must maintain effective internal financial controls for it to provide reliable and accurate financial reports. The Company's compliance with the internal control reporting requirements will depend on the effectiveness of its financial reporting and data systems and controls. Spin Master expects these systems and controls to become increasingly complex to the extent that its business grows, including through acquisitions. To effectively manage such growth, the Company will need to continue to improve its operational, financial and management controls and its reporting systems and procedures. These measures may not ensure that Spin Master designs, implements and maintains adequate controls over its financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation or operation, could harm the Company's financial performance or cause it to fail to meet its financial reporting obligations. Inferior internal controls could also cause investors to lose confidence in the Company's reported financial information, which could have a material and adverse effect on the trading price of its stock and its access to capital.

*Spin Master is subject to tax and regulatory compliance in all the jurisdictions in which it operates and may be subject to audits from time to time that could result in the assessment of additional taxes, interest and penalties.*

Spin Master conducts business globally and is subject to tax and regulatory compliance in the jurisdictions in which it operates. These include those related to collection and payment of value added taxes at appropriate rates and the appropriate application of value added taxes to each of the Company's products, those designed to ensure that appropriate levels of customs duties are assessed on the importation of its products, as well as transfer pricing and other tax regulations designed to ensure that its intercompany transactions are consummated at prices that have not been manipulated to produce a desired tax result, that appropriate levels of income are reported as earned and that it is taxed appropriately on such transactions. International transfer pricing is a subjective area of taxation and generally involves a significant degree of judgment.

Spin Master may be subject to audits that are at various levels of review, assessment or appeal in a number of jurisdictions involving various aspects of value added taxes, customs duties, transfer pricing, income taxes, withholding taxes, sales and use and other taxes and related interest and penalties in material amounts. The taxation authorities in the jurisdictions where the Company carries on business could challenge the Company's transfer pricing policies. In some circumstances, additional taxes, interest and penalties may be assessed and deposits required to be paid in order to challenge the assessments. When applicable, the Company reserves in the consolidated financial statements an amount that it believes represents the most likely outcome of the resolution of disputes, but if it is incorrect in its assessment, it may have to pay a different amount which could potentially be material. Ultimate resolution of these matters can take several years, and the outcome is uncertain. If the taxing authorities in any of the jurisdictions in which the Company operates were to successfully challenge its transfer pricing practices or its positions regarding the payment of income taxes, customs duties, value added taxes, withholding taxes, sales and use, and other taxes, it could become subject to higher taxes and its revenue and earnings could be adversely affected.

*Significant changes in currency exchange rates could have a material adverse effect on Spin Master's business, financial condition and performance.*

Spin Master's financial performance and cash flows are subject to changes in currency exchange rates and regulations. As the Company's financial results are reported in U.S. dollars, changes in the exchange rate between the U.S. dollar, Canadian dollar, Pound Sterling, Peso and the Euro may have an adverse effect / beneficial impact on the Company's U.S. dollar results. Furthermore, potential significant revaluation of the Chinese yuan, which may result in an increase in the cost of producing products in China, could negatively affect Spin Master's business. Government action may restrict the Company's ability to transfer capital across borders and may also impact the fluctuation of currencies in the countries where the Company conducts business or has invested capital. Significant changes in currency exchange rates and reductions in Spin Master's ability to transfer capital across borders could have a material adverse effect on its business, financial condition and performance. Currency fluctuations may also adversely affect the Company's financial performance when it repatriates the funds it receives from these sales or other sources.

*Spin Master is subject to various laws and government regulations, which, if violated, could subject Spin Master to sanctions or third-party litigation or, if changed, could lead to increased costs, changes in the Company's effective tax rate or the interruption of normal business operations that would negatively impact the Company's business, financial condition and performance.*

Spin Master operates in a highly regulated environment in the U.S. and international markets, including its products and the importation and exportation of its products. These policies or regulations may include accounting standards, taxation requirements (including changes in applicable income tax rates, new tax laws, and revised tax law interpretations), product safety and other safety standards, trade restrictions, duties and tariffs (including international trade laws and regulations, export controls, and economic sanctions), and regulations regarding currency and financial matters, anticorruption standards (such as the U.S. Foreign Corrupt Practices Act), environmental matters, advertising directed toward children, product content, and privacy and data protection (such as the U.S. Children's Online Privacy Protection Act), as well as other administrative and regulatory restrictions. In addition, changes in laws or regulations may lead to increased costs, changes in the Company's effective tax rate, or the interruption of normal business operations that would materially and adversely impact its business, financial condition and performance. The Company believes that it takes all necessary steps to comply with these laws and regulations, but Spin Master cannot be certain that it is in full compliance or will be in the future. Failure to comply could result in sanctions or delays that could have a negative impact on the Company's business, financial condition and performance.

*Spin Master relies extensively on information technology in its operations, and any material failure in design, inadequacy, interruption, or security breach of that technology could have a material adverse impact on the Company's business, financial condition and performance.*

Spin Master relies extensively on various information technology systems and software applications across its operations to manage many aspects of the business, including product development, management of its supply chain, sale and delivery of its products, financial reporting, collection and storage of data, and various other processes and transactions. Many of these systems are managed by third-party service providers. The Company is critically dependent on the integrity, security and consistent operations of these systems and related back-up systems. These systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, malware and other security breaches, catastrophic events such as hurricanes, fires, floods, earthquakes, tornadoes, acts of war or terrorism and usage errors by employees or partners. The efficient operation and successful growth of Spin Master's business depends on these information systems, including its ability to operate them effectively and to select and implement appropriate upgrades or new technologies and systems and adequate disaster recovery systems successfully. The failure of the information systems design, to perform as designed or Spin Master's failure to implement and operate them effectively could disrupt the Company's business, require significant capital investments to remediate a problem or subject the Company to liability and could have a material adverse effect on its business, financial condition and performance.

*Spin Master's business could be significantly harmed if its electronic data is compromised.*

Spin Master maintains significant amounts of data electronically in locations around the world. This data relates to all aspects of the Company's business and also contains certain customer and consumer data. The Company maintains systems and processes designed to protect this data, but notwithstanding such protective measures, there is a risk of intrusion or tampering that could compromise the integrity and privacy of this data. In addition, Spin Master provides confidential and proprietary information to its third-party business partners in certain cases where doing so is necessary to conduct the

Company's business. While Spin Master obtains assurances from those parties that they have systems and processes in place to protect such data, and where applicable, that they will take steps to assure the protections of such data by third parties, nonetheless those partners may also be subject to data intrusion or otherwise compromise the protection of such data. While Spin Master and its third-party business partners maintain systems for preventing and detecting a breach of their respective information technology systems, Spin Master and those third parties may be unaware that a breach has occurred, may be unable to detect an ongoing breach or may be delayed in detecting a breach. Spin Master has exposure to similar security risks faced by other large companies that have data stored on their information technology systems. To its knowledge, Spin Master has not experienced any material breach of its cybersecurity systems. If Spin Master's or any third-party service providers' systems fail to operate effectively or are damaged, destroyed, or shut down, or there are problems with transitioning to upgraded or replacement systems, or there are security breaches in these systems, any of the aforementioned could occur as a result of natural disasters, software or equipment failures, telecommunications failures, loss or theft of equipment, acts of terrorism, circumvention of security systems, or other cyber-attacks, Spin Master could experience delays or decreases in product sales, and reduced efficiency of its operations. Any compromise of the confidential data of Spin Master's customers, its consumers or itself, or failure to prevent or mitigate the loss of this data could disrupt Spin Master's operations, damage its reputation, violate applicable laws and regulations and subject the Company to additional costs and liabilities and have a material and adverse impact on its business, financial condition and performance.

*The challenge of continuously developing and offering products that are sought after by children is compounded by the sophistication of today's children and the increasing array of technology and entertainment offerings available to them.*

Children are increasingly utilizing electronic offerings such as tablet devices and mobile phones and they are expanding their interests to a wider array of innovative, technology-driven entertainment products and digital and social media offerings at younger and younger ages. Spin Master's products compete with the offerings of consumer electronics companies, digital media and social media companies. To meet this challenge, the Company is designing and marketing products which incorporate increasing technology, seek to combine digital and analog play, and capitalize on evolving play patterns and increased consumption of digital and social media. With the increasing array of competitive entertainment offerings, there is no guarantee that:

- any of Spin Master's products, brands or entertainment properties will achieve popularity or continue to be popular;
- any property for which Spin Master has a significant license will achieve or sustain popularity;
- any new products or product lines Spin Master introduces, or entertainment content that it creates, will be considered interesting to consumers and achieve an adequate market acceptance; or
- any product's life cycle or sales quantities will be sufficient to permit Spin Master to profitably recover the development, manufacturing, marketing, royalties (including royalty advances and guarantees) and other costs of producing, marketing and selling the product.

*An increasing portion of Spin Master's business may come from technologically advanced or sophisticated digital and smart technology products, which present additional challenges compared to more traditional toys and games.*

Spin Master expects that children will continue to be interested in product offerings incorporating sophisticated technology, such as video games, consumer electronics and social and digital media, at younger and younger ages. Spin Master also expects that parents will seek to enhance child development and learning through digital technologies and analog and technology-based play.

In addition to the risks associated with Spin Master's more traditional products, sophisticated digital and smart technology products face certain additional risks. Costs associated with designing, developing and producing technologically advanced or sophisticated products tend to be higher than for many of Spin Master's more traditional products. Heavy competition in consumer electronics and entertainment products and difficult economic conditions may increase the risk of Spin Master not achieving sales sufficient to recover the increased costs associated with these products. Designing, developing and producing sophisticated digital and smart technology products requires different competencies and may follow longer timelines than traditional toys and games, and any delays in the design, development or production of these products could have a significant impact on Spin Master's ability to successfully offer such products. In addition, the pace of change in product offerings and consumer tastes in the video games, consumer electronics and social and digital media areas is potentially even greater than for Spin Master's more traditional products. This pace of change means that the window in which a technologically advanced or sophisticated product can achieve and maintain consumer interest may be shorter than traditional toys and games. These products may also present data security and data privacy risks and be subject to certain laws, government policies or regulations not applicable to more traditional products, such as the U.S. Children's Online Privacy Protection Act of 1998 and the EU Data Protection Directive (Directive 95/46/EC) and related national regulations.

*Natural disasters or other catastrophic events out of Spin Master's control may damage its operations, facilities or those of its contractors and could materially and adversely affect the Company's business, financial condition and performance.*

A catastrophic event where Spin Master has operations, offices or manufacturing facilities, such as an earthquake, tsunami, flood, typhoon, fire or other natural or manmade disaster, terrorist attacks, wars and other conflicts, or an outbreak of a public health pandemic could disrupt the Company's operations or those of its contractors and impair production or distribution of its products, damage inventory, interrupt critical functions, or otherwise affect its business negatively, and could materially and adversely affect the Company's business, financial condition and performance.

*System failures related to the websites that support Spin Master's internet-related products, applications, services and associated websites could harm the Company's business.*

The websites, applications and services associated with Spin Master's internet-related products depend upon the reliable performance of their technological infrastructure. Customers could be inconvenienced and the Company's business may suffer if demand for access to those websites, applications or services exceeds their capacity. Any significant disruption to, or malfunction by, those websites or services, particularly malfunctions related to transaction processing, on those associated websites could result in a loss of potential or existing customers and sales.

Although Spin Master's systems have been designed to function in the event of outages or catastrophic occurrences, they remain vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunication failures, terrorist attacks, computer viruses, computer denial-of-service attacks, and other events. Some of the Company's systems are not fully redundant, and its disaster recovery planning is not sufficient for all eventualities. Spin Master's systems are also subject to break-ins, sabotage, and intentional acts of vandalism. Despite any precautions the Company may take, the occurrence of a natural disaster or other unanticipated problems at the Company's hosting facilities could result in lengthy interruptions in its services. Spin Master does not carry business interruption insurance sufficient to compensate it for losses that may result from interruptions in its service as a result of system failures. Any unplanned disruption of the Company's systems could result in material and adverse financial impact on its business, financial condition and performance.

*Increases in interest rates, the lack of availability of credit and Spin Master's inability to meet the debt covenant coverage requirements in its credit facility could negatively impact the Company's ability to conduct its business operations.*

Increases in interest rates, both domestically and internationally, could negatively affect Spin Master's cost of financing its operations and investments. Adverse credit market conditions could limit the Company's ability to refinance its existing credit facility and raise additional debt that may be needed to fund the Company's operations. Additionally, Spin Master's ability to issue or borrow long-term debt and obtain seasonal financing or pay dividends could be adversely affected by factors such as an inability to meet certain debt covenant requirements and ratios. In the past, the Company's business has required and will continue to require capital expenditures and available resources to finance acquisitions. Accordingly, Spin Master's ability to maintain its current credit facility and its ability to issue or borrow long-term debt and raise seasonal financing are critical for the success of Spin Master's business. The Company's ability to conduct operations could be materially and adversely impacted should these or other adverse conditions affect the Company's sources of liquidity.

## MATERIAL CONTRACTS

*This Annual Information Form includes a summary description of certain material agreements of the Company. The summary description discloses all attributes material to an investor in securities of the Company but is not complete and is qualified by reference to the terms of the material agreements, which have been filed under the Company's profile on SEDAR at www.sedar.com. Investors are encouraged to read the full text of such material agreements.*

Except for certain contracts entered into in the ordinary course business of the Company, the following are the only contracts entered into by the Company on or after January 1, 2019 (or prior to January 1, 2019 if still in effect) that are material to the Company:

a) the Principal Shareholders Agreement referred to under "Material Contracts – Principal Shareholders Agreement" and elsewhere in this Annual Information Form; and

b) the Coattail Agreement referred to under "Description of Share Capital – Subordinate Voting Shares and Multiple Voting Shares – Take-Over Bid Protection".

**Principal Shareholders Agreement**

The Principal Shareholders Agreement contains provisions with respect to the ownership, transfer and conversion of the Multiple Voting Shares and their respective rights in certain governance matters. Certain of the provisions of the Principal Shareholders Agreement are also set out in the articles or by-laws of the Company. The Majority Principals may amend certain of the provisions of the Principal Shareholders Agreement which do not directly involve the Company, such as the voting and tender rights afforded the Majority Principals, the transfer restrictions, the rights of first offer and the drag along rights, as described below, without the consent of the Company.

*Shareholder Groups and Majority Principals*

The Majority Principals are Mr. Harary and Mr. Rabie. A Majority Principal (i) will cease to be a Majority Principal upon the earlier of his death or at such time that his Principal Shareholders Group owns, directly or indirectly, Voting Shares representing less than 8% of all of the outstanding Voting Shares and (ii) will not be able to act as a Majority Principal while mentally incapacitated. In the event that a Majority Principal ceases to be a Majority Principal, the remaining Majority Principal shall be vested with all of the rights and obligations of such position.

*Nomination of Directors*

Pursuant to the Principal Shareholders Agreement, for so long as the Principal Shareholders Groups collectively own at least 40% of the aggregate Voting Shares held by such groups on the closing of the Company's IPO, Mr. Harary and Mr. Rabie will, subject to the adjustments described below, collectively be entitled to select 80% of the Director nominees for election (the "**Majority Principal Nomination Rights**" and the right to select a Director nominee for election shall be referred to as a "**Nomination Right**").

For so long as the Majority Principals are entitled to the Majority Principal Nomination Rights, such nominees shall include: (i) the Principal Shareholders (so long as each Principal Shareholder wants to stand for election to the Board and his Principal Shareholders Group satisfies the Minimum Threshold (as defined below)), and (ii) subject to the statements below, two Director nominees that are Independent Directors.

The Majority Principal Nomination Rights shall be reduced as follows: (i) if and when the aggregate holdings of Voting Shares by the Principal Shareholders Groups falls below 40% of the aggregate Voting Shares held by such groups on the closing of the Company's IPO, the Majority Principals shall then only be entitled to 60% of the Nomination Rights and (ii) if and when the aggregate holdings of Voting Shares by the Principal Shareholders Groups falls below 20% of the aggregate Voting Shares held by such groups on the closing of the Company's IPO, the Majority Principals shall then only be entitled to 35% of the Nomination Rights. Thereafter, so long as any Multiple Voting Shares are outstanding, the Majority Principals shall be entitled to select a minimum of 35% of the Director nominees for election to the Board.

In the event that the Majority Principals cannot agree on some or all of their Director nominees (the "**Subject Nominees**") then, each Majority Principal shall be entitled to select 50% of the Subject Nominees. In the event of an odd number of Subject Nominees, such remaining Subject Nominee shall be; (i) Mr. Varadi, or (ii) if Mr. Varadi does not wish to stand for election to the Board or Mr. Varadi's Principal Shareholders Group does not satisfy the Minimum Threshold, then as determined by the Majority Principals, or (iii) if the Majority Principals cannot agree, then as determined by the Governance, Nominating and Compensation Committee (the "**GN&C Committee**").

If and when the Multiple Voting Shares are all converted to Subordinate Voting Shares then, the Majority Principal Nomination Rights shall cease, however, if a Principal Shareholders Group holds Voting Shares equal to or greater than 5% of all of the outstanding Voting Shares (the "**Minimum Threshold**"), the Company shall, if so requested by the Principal Shareholder of such Principal Shareholders Group, include the Principal Shareholder, or his nominee, in the proposed nominees put forward by management for election to the Board, provided that the Principal Shareholder, or nominee, is qualified under applicable law to so act.

Any Nomination Right not held by the Majority Principals shall rest with the GN&C Committee. The requirement to nominate Independent Directors shall first be satisfied by the nominees of the GN&C Committee and, if not sufficient, by the Majority Principal Nomination Rights. The selection of Director nominees by the GN&C Committee shall be done in consultation with the Majority Principals. The Principal Shareholders Agreement contains mechanisms for resolving disputes with respect to these matters.

Where a vacancy occurs on the Board, the vacancy shall be filled as soon as possible by the Majority Principals (for so long as they are entitled to the Majority Principal Nomination Rights) or by the GN&C Committee, in consultation with the

Majority Principals, as set out above, if the vacancy is not in respect of a Nomination Right to which the Majority Principals are entitled.

*Board Chair, Procedure and Committees*

The Chair of the Board must be one of the Majority Principals so long as such person is a Majority Principal and a Director of the Company. If one of Mr. Harary or Mr. Rabie, whoever is then Chair of the Board, as the case may be, should cease being a Director of the Company or a Majority Principal, or resigns from the Chair position, then the other of them shall become the Chair of the Board, provided he agrees to so act. In the event that neither Mr. Harary nor Mr. Rabie is a Majority Principal and a Director of the Company, or neither of them wishes to be the Chair of the Board, then the Chair shall be appointed by the Board. The term of each Majority Principal Chair shall be two years, subject to such person's re-election as a Director from time to time. The Chair will not have a casting vote at meetings of Directors. In addition, as long as the Chair of the Board is not an Independent Director, one of the Independent Directors will be designated by the Board as the Lead Director of the Board. Decisions of the Board will be approved by majority vote, or by a written instrument signed by all Directors.

A quorum at a meeting of the Board consists of a majority of the Directors then holding office. If a meeting of Directors is adjourned for lack of quorum, it will be reconvened one week later (or at such other date, time and place as the Directors in attendance determine), and the Directors then present at the reconvened meeting will constitute a quorum.

The Majority Principals are entitled to select one member of each standing committee of the Board, other than the Audit Committee, provided that the Director selected to the GN&C Committee shall not be an officer of the Company.

*Voting / Tendering of Multiple Voting Shares*

Under the Principal Shareholders Agreement, the Principal Shareholders Groups have provided the Majority Principals with the authority to vote or tender to a formal take-over bid their Subordinate Voting Shares, Multiple Voting Shares, any Subordinate Voting Shares into which those Multiple Voting Shares are converted, and any Multiple Voting Shares and Subordinate Voting Shares that may be subsequently acquired and held by them. All matters relating to the voting (or tendering) of the Voting Shares that are subject to the Principal Shareholders Agreement shall be in accordance with the provisions of the Principal Shareholders Agreement and otherwise as determined by the Majority Principals, acting jointly. Except as otherwise provided in the Principal Shareholders Agreement, if the Majority Principals are unable to agree, the Voting Shares that are subject to the Principal Shareholders Agreement shall be voted against the Company taking such action (or in the case of a take-over bid, not tendered). In the event that a Majority Principal ceases to be a Majority Principal, the remaining Majority Principal will be entitled to vote or tender all of the Voting Shares that are subject to the Principal Shareholders Agreement.

*Issuance of Additional Multiple Voting Shares*

From and after the closing of the Company's IPO, the Company may not issue additional Multiple Voting Shares, except in connection with a subdivision or consolidation of Voting Shares on a *pro rata* basis as between the Subordinate Voting Shares and the Multiple Voting Shares.

*Transfer Restrictions and Sale Procedures*

Each member of a Principal Shareholders Group may only deal with the Multiple Voting Shares and the Subordinate Voting Shares held by it in accordance with the Principal Shareholders Agreement.

Subject to the exception set out in the next sentence, for a three year period following the date of the closing of the Company's IPO (the "**Transfer Restricted Period**"), the Principal Shareholders Groups are not permitted to sell any of the Voting Shares held by them without the prior consent of the Majority Principals. The foregoing restriction shall not apply (a) during the first two years of the Transfer Restricted Period, in respect of one or more sales by a Principal Shareholders Group of Multiple Voting Shares (or Subordinate Voting Shares into which such Multiple Voting Shares are convertible) representing in the aggregate up to 20% of such group's Voting Share ownership on the closing of the Company's IPO, and (b) during the third year of the Transfer Restricted Period, in respect of one or more sales by a Principal Shareholders Group of Multiple Voting Shares (or Subordinate Voting Shares into which such Multiple Voting Shares are convertible) representing in the aggregate up to 50% of such group's Voting Share ownership on the closing of the Company's IPO (including any sales during the first two years), subject to the rights of first offer provisions in the Principal Shareholders Agreement. Thereafter, (a) transfers of Multiple Voting Shares to a Permitted Holder are permitted, provided that the transferee agrees in writing to be bound by the Principal Shareholders Agreement, and (b) transfers, other than a transfer to a Permitted Holder of the transferor, are subject to the rights of first offer provisions in the Principal Shareholders Agreement. See "– Rights of First Offer and Drag Along".

*Pre-Emptive Rights*

In the event that the Company decides to issue additional Subordinate Voting Shares or securities convertible into or exchangeable for Subordinate Voting Shares or any other voting or equity shares in the capital of the Company or an option or other right to acquire any such securities (the "**Issued Securities**"), the Principal Shareholders Agreement provides each Principal Shareholders Group with pre-emptive rights to purchase that number of Issued Securities as is necessary to maintain, after such issuance of Issued Securities, each such Principal Shareholders Group's effective *pro rata* equity ownership interest prior to the issuance of the Issued Securities. The pre-emptive right will not apply to the issuance of Subordinate Voting Shares in certain circumstances, including: (a) in respect of the exercise of options, warrants, rights or other securities issued under the Company's security-based compensation arrangements, if any; (b) in connection with a subdivision of then-outstanding Subordinate Voting Shares into a greater number of Subordinate Voting Shares, provided that an equivalent change is made to the Multiple Voting Shares; (c) the issuance of equity securities of the Company *in lieu* of cash dividends, if any; (d) the exercise by a holder of a conversion, exchange or other similar privilege pursuant to the terms of a security in respect of which such Principal Shareholders Group did not exercise, failed to exercise, or waived its pre-emptive right or in respect of which the pre-emptive right did not apply; and (e) pursuant to a shareholders' rights plan of the Company, if any; and (f) to any subsidiary of the Company or an affiliate of any of them.

If the Company proposes to offer for sale any Issued Securities, the Company will deliver a written notice to each Principal Shareholders Group offering the opportunity to subscribe for Issued Securities pursuant to the pre-emptive rights described above. In order to exercise such rights, a Principal Shareholders Group must respond within the applicable time period provided in the articles of the Company. Each Principal Shareholders Group will be entitled to subscribe for Issued Securities pursuant to the exercise of such pre-emptive rights at the same price and on the most favourable terms as such Issued Securities are to be offered to any party, excluding commissions and other transaction expenses paid by the Company.

The pre-emptive rights provided to a Principal Shareholders Group shall (i) terminate, with respect to such Principal Shareholders Group, upon the death of the Principal Shareholder of such group or upon such group ceasing to own, directly or indirectly, Voting Shares representing at least 8% of all of the issued and outstanding Voting Shares and (ii) cease to be operative, with respect to such Principal Shareholders Group, during the period that the Principal Shareholder of such group is mentally incapacitated.

*Rights of First Offer and Drag Along*

Any member of a Principal Shareholders Group (an "**Offeror**") who proposes to sell to any person, other than to another member of the Offeror's Principal Shareholders Group, any of the Multiple Voting Shares (or Subordinate Voting Shares into which such Multiple Voting Shares are convertible) or Subordinate Voting Shares that the Offeror owns must give notice of the proposed sale (the "**First Offer Notice**") to the Principal Shareholders Groups of which the Offeror is not a member (the "**Offeree Groups**"). The First Offer Notice will set out the number of Multiple Voting Shares (or Subordinate Voting Shares into which such Multiple Voting Shares are convertible) or Subordinate Voting Shares that the Offeror proposes to sell (the "**Offered Shares**") and the price (the "**Purchase Price**") and the other terms upon which the Offeror proposes to sell the Offered Shares. The Offered Shares may not be offered for sale together with or in conjunction with other assets and the Purchase Price must be payable in money and not in any other form of property. Upon the First Offer Notice being given, the Offeree Groups will have the right to purchase all, but not less than all, of the Offered Shares for the Purchase Price. Members of the Offeree Groups may purchase the Offered Shares in any combination in their discretion provided the member becomes a party to the Principal Shareholders Agreement if not already a party.

If at least one Offeree Group wishes to purchase all, but not less than all of the Offered Shares, the Offeree Group shall give notice of its intention to do so within ten business days of receipt of the First Offer Notice or such longer period as provided for in the First Offer Notice. If no such notice is given, the Offeree Groups shall no longer have any right to acquire the Offered Shares, and the Offeror will have 180 days to complete a sale of the Offered Shares to one or more third parties, including a sale by way of a public offering, at a price per share no lower than 95% of the Purchase Price offered to the Offeree Groups.

The purchase rights provided to a Principal Shareholders Group pursuant to the rights of first offer provisions in the Principal Shareholders Agreement shall (i) terminate, with respect to such Principal Shareholders Group, upon the death of the Principal Shareholder of such group or upon such group ceasing to own, directly or indirectly, Voting Shares representing at least 8% of all of the issued and outstanding Voting Shares and (ii) cease to be operative, with respect to such Principal Shareholders Group, during the period that the Principal Shareholder of such group is mentally incapacitated.

If the Majority Principals decide to sell all of the Voting Shares owned, directly and indirectly, by them to an arm's length third party, they can then require the other Principal Shareholders Groups to sell their shares to such third party purchaser on the same terms.

*Demand Registration Rights*

If a holder of Multiple Voting Shares is entitled to sell to one or more third parties any Subordinate Voting Shares (including those issuable upon the conversion of Multiple Voting Shares) as permitted by the Principal Shareholders Agreement, such Shareholder (the "**Selling Shareholder**") may, by written notice (the "**Demand Notice**"), require the Company to prepare and file the necessary offering documents with one or more securities regulatory authorities to qualify securities of the Company for distribution in one or more jurisdictions (a "**Demand Registration**") and the Company will otherwise take all actions as may be necessary or desirable in order to effect a public offering of the Subordinate Voting Shares by the Selling Shareholder (a "**Secondary Offering**"). The amount of the Secondary Offering must be at least $25 million. The underwriters for the Secondary Offering will be selected by the Selling Shareholder in consultation with the Company.

The Company may participate in a proposed Secondary Offering by selling Subordinate Voting Shares from treasury if the underwriters of the Secondary Offering, acting reasonably, are of the view that to do so would facilitate the offering. Notwithstanding any Demand Notice, the Company will be entitled to postpone the filing of any offering document for up to 90 days from the date of such Demand Notice if, in the good faith judgment of the Board, the requested Secondary Offering could reasonably be expected to adversely affect the Company.

In connection with a Secondary Offering, the Company will provide further rights which are customary for a Secondary Offering to the Selling Shareholder, including with regard to indemnification by the Company of the Selling Shareholder, certain expense payments and reimbursements and undertakings by the Company in connection with the Secondary Offering. All reasonable expenses incurred by the Company and the Selling Shareholder in connection with the Secondary Offering, including all registration, qualification and filing fees and underwriting fees, shall be borne by the Selling Shareholder in proportion to the amount the gross proceeds received by the Selling Shareholder bear to the total gross proceeds of the Secondary Offering, except the fees and disbursements of legal counsel which shall be borne by the respective parties participating in the Secondary Offering.

The Company shall not be obliged to effect more than three Demand Registrations in any 12-month period. Additionally, no holder of Multiple Voting Shares shall be permitted to exercise its Demand Registration rights more than once in any 180-day period.

*Piggy Back Registration Rights*

Holders of Multiple Voting Shares also have unlimited registration rights relating to the inclusion of their Subordinate Voting Shares (including those issuable upon the conversion of Multiple Voting Shares) in any prospectus filed by the Company, subject to the provisions of the Principal Shareholders Agreement and further subject to a reduction in the number of such Subordinate Voting Shares the Company is obligated to include if the lead underwriters participating in such transaction, acting reasonably, advise the Company that such reduction is necessary.

The Company will pay all costs and expenses in connection with each registration described above, except underwriting discounts and commissions applicable to the securities sold by the holders of Multiple Voting Shares and any legal fees of independent counsel to such holders of Multiple Voting Shares, and to indemnify such holders against certain liabilities, including liabilities under applicable securities laws.

*Termination*

If and when Mr. Harary and Mr. Rabie cease to qualify as Majority Principals, certain of the rights afforded the Principal Shareholders Groups, including the Majority Principal Nomination Rights, the voting and tender rights afforded the Majority Principals on behalf of the Principal Shareholders Groups, the transfer restrictions, the pre-emptive rights, the rights of first offer and drag along rights, as described above, other than the demand registration rights and piggyback registration rights, shall cease to be operative and all of the Multiple Voting Shares shall be automatically converted to Subordinate Voting Shares. The Majority Principals may terminate certain of the rights listed in the previous sentence, other than the demand registration rights and piggyback registration rights, at their discretion. The Principal Shareholders Agreement will continue in respect of all Voting Shares subject thereto notwithstanding conversions from Multiple Voting Shares to Subordinate Voting Shares, until the earliest to occur of: (a) the date that the Voting Shares subject to the Principal Shareholders Agreement constitute less than 10% of all of the outstanding Voting Shares; or (b) the dissolution or liquidation of the Company. Upon termination of the Principal Shareholders Agreement, all outstanding Multiple Voting Shares shall be automatically converted to Subordinate Voting Shares.

## INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as noted below, no Director or executive officer of the Company, person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the Subordinate Voting Shares or Multiple Voting Shares, or associate or affiliate of any of the foregoing persons or companies, has or had a material interest, direct or indirect, in any transaction occurring on or since July 30, 2015, the date the Company completed its IPO, that has materially affected or is reasonably expected to materially affect the Company:

- the provision of legal services to the Company and its subsidiaries by Torkin Manes LLP, of which Mr. Jeffrey I. Cohen is a partner, pursuant to which the Company incurred fees of approximately C$750,000 in 2019.

## LEGAL PROCEEDINGS

Spin Master currently, and from time to time, is involved in legal proceedings, as well as demands, claims and threatened litigation, that arise in the normal course of the Company's business, including assertions that Spin Master may be infringing patents or other IP rights of others. Spin Master believes that the ultimate amount of liability, if any, for any pending claims of any type (either alone or combined) not otherwise described below will not materially affect its financial position or results of operations. Spin Master also believes that, if necessary, the Company would be able to obtain any required licenses or other rights to disputed IP rights on commercially reasonable terms. However, the ultimate outcome of any litigation is uncertain and, regardless of outcome, litigation can have an adverse impact on Spin Master's business because of defense costs, negative publicity, diversion of management resources and other factors. Spin Master's failure to obtain any necessary license or other rights on commercially reasonable terms, or otherwise, or litigation arising out of IP claims could materially adversely affect its business.

## TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Voting Shares is Computershare Investor Services Inc. at its principal offices in Toronto, Ontario.

## EXPERTS

The Company's auditors are Deloitte LLP, located at Toronto, Ontario. Deloitte LLP has advised that it is independent of the Company within the meaning of the rules of professional conduct of the Chartered Professional Accountants of Ontario.

## ADDITIONAL INFORMATION

Additional information, including Directors' and officers' remuneration, principal holders of the Voting Shares, and Subordinate Voting Shares authorized for issuance under equity compensation plans, will be contained in the Company's management information circular for the 2020 annual meeting of Shareholders. Additional financial information is provided in the Company's audited annual consolidated financial statements and MD&A for the year ended December 31, 2019. Such documentation, as well as additional information relating to the Company, may be found under the Company's profile on SEDAR at www.sedar.com.

**GLOSSARY**

Certain terms used in this Annual Information Form have the following meanings:

"**Adjusted EBITDA**" has the meaning ascribed thereto under "Non-IFRS Financial Measures";

"**Advance Notice Provisions**" has the meaning ascribed thereto under "Directors and Executive Officers — Advance Notice Provisions";

"**Aerobie**" means Aerobie Inc.;

"**Board**" means the board of directors of the Company;

"**Cardinal**" means Cardinal Industries Inc.;

"**Coattail Agreement**" has the meaning ascribed thereto under "Description of Share Capital — Subordinate Voting Shares and Multiple Voting Shares — Take-Over Bid Protection";

"**Company**" or "**Spin Master**" means Spin Master Corp.;

"**CPSA**" means the U.S. *Consumer Product Safety Act*;

"**Demand Notice**" has the meaning ascribed thereto under "Material Contracts — Principal Shareholders Agreement — Demand Registration Rights";

"**Demand Registration**" has the meaning ascribed thereto under "Material Contracts — Principal Shareholders Agreement — Demand Registration Rights";

"**Directors**" means directors of the Company, and "**Director**" means any one of them;

"**EBITDA**" has the meaning ascribed thereto under "Non-IFRS Financial Measures";

"**FFA**" means the U.S. *Flammable Fabrics Act*;

"**FHSA**" means the U.S. *Federal Hazardous Substances Act*;

"**First Offer Notice**" has the meaning ascribed thereto under "Material Contracts — Principal Shareholders Agreement — Rights of First Offer and Drag Along";

"**Free Cash Flow**" has the meaning ascribed thereto under "Non-IFRS Financial Measures";

"**Global Business Unit**" means a global business unit of the Company;

"**GN&C Committee**" means the Governance, Nominating and Compensation Committee;

"**Gross Product Sales**" has the meaning ascribed thereto under "Non-IFRS Financial Measures";

"**IFRS**" means International Financial Reporting Standards;

"**Independent Director**" has the meaning ascribed thereto under "Directors and Executive Officers — Advance Notice Provisions";

"**IP**" means intellectual property;

"**IPO**" means the initial public offering of Subordinate Voting Shares of the Company;

"**Issued Securities**" has the meaning ascribed thereto under "Material Contracts — Principal Shareholders Agreement — Pre-Emptive Rights";

"**Majority Principal Nomination Rights**" has the meaning ascribed thereto under "Material Contracts — Principal Shareholders Agreement — Nomination of Directors";

“**Majority Principals**” means, collectively, Ronnen Harary and Anton Rabie, and “**Majority Principal**” means either one of them;

“**Marbles**” means Marbles Holdings LLC;

“**MD&A**” means the Company’s management’s discussion and analysis for the year ended December 31, 2019;

“**Minimum Threshold**” has the meaning ascribed thereto under “Material Contracts — Principal Shareholders Agreement — Nomination of Directors”;

“**Multiple Voting Shares**” means the multiple voting shares of the Company;

“**Nomination Right**” means the right to propose a Director nominee for election;

“**Nominee Arrangements**” has the meaning ascribed thereto under “Directors and Executive Officers — Advance Notice Provisions”;

“**Notice Date**” has the meaning ascribed thereto under “Directors and Executive Officers — Advance Notice Provisions”;

“**OBCA**” means the *Business Corporations Act* (Ontario);

“**Offered Shares**” has the meaning ascribed thereto under “Material Contracts — Principal Shareholders Agreement — Rights of First Offer and Drag Along”;

“**Offeree Groups**” has the meaning ascribed thereto under “Material Contracts — Principal Shareholders Agreement — Rights of First Offer and Drag Along”;

“**Offeror**” has the meaning ascribed thereto under “Material Contracts — Principal Shareholders Agreement — Rights of First Offer and Drag Along”;

“**Order**” means a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denies the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days;

“**Permitted Holder**” has the meaning ascribed thereto under “Description of Share Capital — Subordinate Voting Shares and Multiple Voting Shares — Shareholder Approval Required for Certain Matters”;

“**Preferred Shares**” means preferred shares of the Company;

“**Principal Shareholders**” means, collectively, Ronnen Harary, Anton Rabie and Ben Varadi, and “**Principal Shareholder**” means any one of them;

“**Principal Shareholders Agreement**” has the meaning ascribed thereto under “Business of the Company — General Development of the Business”;

“**Principal Shareholders Group**” has the meaning ascribed thereto under “Description of Share Capital — Subordinate Voting Shares and Multiple Voting Shares — Automatic Conversion of Multiple Voting Shares”;

“**Purchase Price**” has the meaning ascribed thereto under “Material Contracts — Principal Shareholders Agreement — Rights of First Offer and Drag Along”;

“**R&D**” means research and development;

“**Sales Allowances**” has the meaning ascribed thereto under “Non-IFRS Financial Measures”;

“**Secondary Offering**” has the meaning ascribed thereto under “Material Contracts — Principal Shareholders Agreement — Demand Registration Rights”;

“**Selling Shareholder**” has the meaning ascribed thereto under “Material Contracts — Principal Shareholders Agreement — Demand Registration Rights”;

"**Shareholders**" means, collectively, the holders of the Voting Shares, and "**Shareholder**" means any one of them;

"**SKUs**" means stock keeping units;

"**SME**" means Spin Master Entertainment;

"**SML**" means Spin Master Ltd.;

"**SMS**" means Spin Master Studios Inc.;

"**STEM**" means science, technology, engineering and mathematics;

"**Subject Nominees**" has the meaning ascribed thereto under "Material Contracts — Principal Shareholders Agreement — Nomination of Directors";

"**Subordinate Voting Shares**" means the subordinate voting shares of the Company;

"**Swimways**" means Swimways Corp.;

"**TOTY**" means an American Toy Industry Association "Toy of the Year";

"**Transfer Restricted Period**" has the meaning ascribed thereto under "Material Contracts — Principal Shareholders Agreement — Transfer Restrictions and Sale Procedures";

"**TSX**" means the Toronto Stock Exchange;

"**U.K.**" means the United Kingdom;

"**U.S.**" means the United States of America; and

"**Voting Shares**" means, collectively, the Multiple Voting Shares and the Subordinate Voting Shares.

## APPENDIX A

## SPIN MASTER CORP.
## CHARTER OF THE AUDIT COMMITTEE

**Effective Date: November 5, 2019**

### 1. Introduction

This charter (the ''**Charter**'') sets forth the purpose, composition, duties and responsibilities of the Audit Committee (the ''**Committee**'') of the Board of Directors (the ''**Board**'') of Spin Master Corp. (the ''**Company**'').

### 2. Purpose

The purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities with respect to:

- financial reporting and disclosure requirements;
- ensuring that an effective risk management and financial control framework has been designed, implemented and tested by management of the Company;
- external audit processes;
- helping directors meet their responsibilities;
- providing better communication between directors and external auditors;
- enhancing the independence of the external auditors;
- increasing the credibility and objectivity of financial reports; and
- strengthening the role of directors by facilitating in-depth discussions among directors, management and the external auditors regarding significant issues involving judgment and impacting quality controls and reporting.

### 3. Membership

#### *3.1 Number of Members*

The Committee shall be composed of three or more members of the Board.

#### *3.2 Independence of Members*

Each member of the Committee must be independent. ''Independent'' shall have the meaning, as the context requires, given to it in National Instrument 52-110 *Audit Committees*, as may be amended from time to time.

#### *3.3 Chair*

At the time of the annual appointment of the members of the Committee, the Board may appoint a chair of the Committee. If a Committee chair is not appointed by the Board, the members of the Committee may designate a chair by majority vote of the full Committee membership. The Committee chair shall be a member of the Committee.

#### *3.4 Financial Literacy of Members*

At the time of his or her appointment to the Committee, each member of the Committee shall have, or shall acquire within a reasonable time following appointment to the Committee, the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

#### *3.5 Term of Members*

The members of the Committee shall be appointed annually by the Board. Each member of the Committee shall serve at the pleasure of the Board until the member resigns, is removed, or ceases to be a member of the Board.

## 4. <u>Meetings</u>

### *4.1 Number of Meetings*

The Committee may meet as many times per year as necessary to carry out its responsibilities.

### *4.2 Quorum*

No business may be transacted by the Committee at a meeting unless a quorum of the Committee is present. A majority of members of the Committee shall constitute a quorum.

### *4.3 Calling of Meetings*

The Committee chair, any member of the Committee, the external auditors, the Chair of the Board, or either Co- Chief Executive Officer or the Chief Financial Officer may call a meeting of the Committee by notifying the Company's Corporate Secretary who will notify the members of the Committee.

### *4.4 Chair*

The Committee chair shall preside over all Committee meetings that he or she attends, and in the absence of the Committee chair, the members of the Committee present may appoint a chair for the meeting from among their number.

### *4.5 Minutes; Reporting to the Board*

The Committee shall maintain minutes or other records of meetings and activities of the Committee in sufficient detail to convey the substance of all discussions held. Upon approval of the minutes by the Committee, the minutes shall be circulated to the members of the Board. However, the Committee chair may report orally to the Board on any matter in his or her view requiring the immediate attention of the Board.

### *4.6 Attendance of Non-Members*

The external auditors are entitled to attend and be heard at each Committee meeting. In addition, the Committee may invite to a meeting any officers or employees of the Company, legal counsel, advisors and other persons whose attendance it considers necessary or desirable in order to carry out its responsibilities. At least once per year, the Committee shall meet with the internal auditor, if one has been appointed, and management in separate sessions to discuss any matters that the Committee or such individuals consider appropriate.

### *4.7 Meetings without Management*

As part of each meeting of the Committee, the independent directors shall hold a meeting with the external auditors of the Company and an in camera session, at which management and non-independent directors are not present, and the agenda for each Committee meeting will afford an opportunity for such a session.

### *4.8 Access to Management and Books and Records*

The Committee shall have unrestricted access to the Company's management and employees and the books and records of the Company.

## 5. <u>Duties & Responsibilities</u>

The Committee has, among other things, the following responsibilities, in addition to the duties and responsibilities required of an audit committee by any exchange upon which securities of the Company are traded, or any governmental or regulatory body exercising authority over the Company, as are in effect from time to time (collectively, the ''**Applicable Requirements**''):

***5.1 Financial Statements and Reporting***

- Assist the Board in the discharge of its oversight responsibilities relating to the Company's financial statements and its financial reporting practices and system of internal accounting and financial controls, the corporate audit and risk assessment function, the management information systems, the annual external audit of the Company's financial statements and the compliance by the Company with laws and regulations and its own Code of Ethics and Business Conduct related thereto.

- Review significant accounting and reporting issues, including complex or unusual material transactions and highly judgmental areas, unusual or sensitive matters such as disclosure of related party transactions, significant non-recurring events, significant risks and changes in provisions, estimates or provisions included in any financial statements, and recent professional and regulatory pronouncements, and understand their impact on and presentation in the financial statements.
- Review and discuss with management and the external auditors the results of the audit, including any difficulties encountered and follow-up in that context and ensure that the external auditors are satisfied that the accounting estimates and judgments made by management's selection of accounting principles reflect an appropriate application of generally accepted accounting principles.
- Review the annual financial statements and consider whether there is any reason to believe that they are not complete, adequate, consistent with information known to the members of the Committee, and reflect appropriate accounting principles and, if appropriate, recommend to the Board their approval and disclosure.
- Understand how management develops interim financial information, and the nature and extent of internal and external auditors involvement.
- Review interim financial reports with management and the external auditors before disclosure and filing with regulators, and consider whether there is any reason to believe that they are not complete and consistent with the information known to the members of the Committee and reflect appropriate accounting principles and, if appropriate, recommend to the Board their approval and disclosure.
- Review the Company's management discussion and analysis, and other financial information including, without limitation, forward-looking information provided by the Company to any governmental body or the public and, if appropriate, recommend to the Board their approval and disclosure.
- Review the Company's annual information form and related regulatory filings before release to the extent that same include financial information, and consider the accuracy and completeness of the financial information contained therein and, if appropriate, recommend to the Board their approval and disclosure.
- Review the Company's press releases containing financial information including, without limitation, forward-looking information before the Company publicly discloses this information and, if appropriate, recommend to the Board their approval and disclosure.
- Review and discuss with management any litigation matters which could significantly affect the financial statements, and review the manner in which these matters are disclosed in the financial statements.
- Review and discuss any regulatory compliance issues which could significantly affect the financial statements.
- Review and discuss any corporate governance issues which could significantly affect the financial statements.
- Review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards.
- To the extent not previously reviewed by the Committee, review and, if appropriate, recommend to the Board the approval of all financial statements included in any prospectus, offering memoranda or other offering document and all other financial reports required by regulatory authorities and requiring approval by the Board.
- Review the statement of management's responsibility for the financial statements as signed by the management of the Company and included in any published document.
- Obtain explanations for communication to the Board for all significant variances between comparable reporting periods.
- Ensure that adequate procedures are in place for the review of the Company's public disclosure of financial

information extracted or derived from the Company's financial statements and periodically assess the adequacy of those procedures.

- Monitor the application and update, as necessary, of the Company's disclosure policy in relation to financial information.

***5.2 Internal Control***

- Review the Company's system of internal controls.
- Require management to design, implement and maintain appropriate systems of internal controls in accordance with Applicable Requirements, including internal controls over financial reporting and disclosure and to review, evaluate and approve these procedures.
- At least annually, consider and review with management and the Company's external auditors:
  - the effectiveness of, or weaknesses or deficiencies in: the design or operation of the Company's internal controls (including computerized information system controls and security); the overall control environment for managing business risks; and accounting, financial and disclosure controls (including, without limitation, controls over financial reporting), non-financial controls, and legal and regulatory controls and the impact of any identified weaknesses in internal controls on management's conclusions;
  - any significant changes in internal controls over financial reporting that are disclosed, or considered for disclosure, including those in the Company's regulatory filings;
  - any material issues raised by any inquiry or investigation by the Company's regulators;
  - the Company's fraud prevention and detection program, including deficiencies in internal controls that may impact the integrity of financial information, or may expose the Company to other significant internal or external fraud losses and the extent of those losses and any disciplinary action in respect of fraud taken against management or other employees who have a significant role in financial reporting; and
  - any related significant issues and recommendations of the external auditors together with management's responses thereto, including the timetable for implementation of recommendations to correct weaknesses in internal controls over financial reporting and disclosure controls and procedures.
- Recommend and supervise the establishment and operation of an internal audit process.

***5.3 External Audit***

- Recommend to the Board the appointment or discharge and compensation of the Company's external auditors.
- Oversee the work of the external auditors, including the auditors' work in preparing or issuing an audit report, performing other audit, review or attest services or any other related work.
- Fill the role as the direct contact for the external auditors and manage the relationship between the Company and the external auditors.
- Maintain a free and open line of communication with management, the Chief Financial Officer and the external auditors.
- Resolve disagreements between the external auditors and management as to financial reporting matters brought to the Committee's attention.
- At least annually, discuss with the external auditors such matters as are required by applicable auditing standards.
- At least annually, review a summary of the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review a report prepared by the external auditors in respect of each of the interim financial statements of the Company.
- Pre-approve all non-audit services to be provided to the Company or its subsidiary entities by the Company's external auditors, that the Committee deems advisable in accordance with Applicable Requirements and policies and procedures adopted by the Board.

- At least annually, and before the external auditors issue their report on the annual financial statements: review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the Company, including non-audit services; discuss any disclosed relationships or services that may affect the objectivity and independence of the auditors; and obtain written confirmation from the auditors that they are objective and independent within the meaning of the applicable rules of professional conduct and other Applicable Requirements.
- At least annually, meet separately with the external auditors to discuss the access to requested information and level of cooperation from management during the performance of their work.
- On a regular basis, review and approve the Company's hiring policies regarding partners, employees and former employees of the present and former external auditors of the Company.
- Review the qualifications and performance of the lead partner(s) of the external auditors and determine whether it is appropriate to adopt or continue a policy of rotating lead partners of the external auditors

***5.4 Compliance***

- Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls or auditing matters, and for the confidential, anonymous submission by employees of the Company or its subsidiaries of concerns regarding questionable accounting or auditing matters (the ''**Complaints Procedures**'').
- Review the effectiveness of the Complaints Procedures and follow-up (including disciplinary action) of any instances of non-compliance.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Obtain regular updates from management and the Company's legal counsel regarding compliance matters in respect of the Complaints Procedures.
- Review reports regarding any material communications received from regulators in relation to financial information.

***5.5 Other Responsibilities***

- Review and discuss with management the appointment of key financial executives and recommend qualified candidates to the Board, as appropriate.
- Review, and where appropriate, recommend action by the Board on matters within its responsibilities on:
  - An annual report on officers' and executives' expenses.
  - An annual report on consulting and legal fees paid by the Company.
- Perform other activities related to this Charter as requested by the Board.
- Investigate and assess any issue that raises significant concern to the Committee, with the assistance, if so required by the Committee, of the Chief Financial Officer and/or the external auditors.

## 6. Oversight Function

While the Committee is responsible for overseeing the Company's financial statements and financial disclosures as set forth in this Charter, the Company's management is responsible for the preparation, presentation and integrity of the Company's financial statements and financial disclosures and for the appropriateness of the accounting principles and the reporting policies used by the Company, and the Company's external auditors are responsible for auditing the Company's annual consolidated financial statements and for reviewing the Company's unaudited interim financial statements.

## 7. Reporting

The Committee chair shall provide a report to the Board on material matters considered by the Committee at the next regular Board meeting following the Committee's meeting. As required by the Applicable Requirements, the Committee should report annually to shareholders, describing the Committee's composition, responsibilities and any other information required by applicable law. The Committee should also review any other report the Company issues that relates to the Committee's responsibilities.

**8. Delegation**

The Committee may, to the extent permissible by Applicable Requirements, designate a sub-committee to review any matter within this Charter as the Committee deems appropriate.

**9. Access to Information and Authority**

The Committee will be granted access to all information regarding the Company that is necessary or desirable to fulfill its duties and all directors, officers and employees will be directed to cooperate as requested by members of the Committee. The Committee has the authority to retain, at the Company's expense, independent legal, financial and other advisors, consultants and experts, to assist the Committee in fulfilling its duties and responsibilities, including sole authority to retain and to approve and pay any such firm's fees and other retention terms without prior approval of the Board. The Committee also has the authority to communicate directly with internal and external auditors.

**10. Limitation on Committee's Duties; No Rights Created**

Notwithstanding the foregoing and subject to applicable law, nothing contained in this Charter is intended to require the Committee to ensure the Company's compliance with applicable laws or regulations. In contributing to the Committee's discharge of its duties under this Charter, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended or may be construed as imposing on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which the members of the Board are subject. This Charter is a statement of broad policies and is intended as a component of the flexible governance framework within which the Committee functions. While it should be interpreted in the context of all applicable laws, regulations and listing requirements, as well as in the context of the Company's Articles and By-laws, it is not intended to establish any legally binding obligations.

**11. Review of Charter**

Periodically, the Committee shall review and assess the adequacy of this Charter to ensure compliance with any rules of regulations promulgated by any regulatory body and recommend for Board approval any modifications to this Charter as considered advisable.