

# **Spin Master Corp.**

Condensed consolidated interim financial statements (unaudited)

For the three and six months ended June 30, 2019 and June 30, 2018

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and June 30, 2018

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# Spin Master Corp.

## Condensed consolidated interim statements of financial position

(Unaudited, in thousands of United States dollars)	Notes	June 30, 2019	December 31, 2018
<b>Assets</b>			
Current assets			
Cash		77,117	143,518
Trade and other receivables	8	350,169	381,754
Inventories	9	145,366	110,131
Prepaid expenses		32,578	32,854
Income tax receivable		31,555	—
		<b>636,785</b>	<b>668,257</b>
Non-current assets			
Advances on royalties		6,605	10,091
Property, plant and equipment	10	63,813	56,020
Intangible assets	11	164,278	165,838
Goodwill	12	125,135	124,187
Deferred tax assets		20,933	21,004
Right-of-use assets	2	83,106	—
		<b>463,870</b>	<b>377,140</b>
<b>Total assets</b>		<b>1,100,655</b>	<b>1,045,397</b>
<b>Liabilities</b>			
Current liabilities			
Trade payables and other liabilities	13	273,233	323,015
Contract liabilities		7,120	6,927
Provisions		25,563	29,233
Income tax payable		—	6,520
Lease liabilities	2	12,604	—
		<b>318,520</b>	<b>365,695</b>
Non-current liabilities			
Provisions		1,694	1,743
Deferred tax liabilities		29,497	15,492
Lease liabilities	2	72,024	—
		<b>103,215</b>	<b>17,235</b>
<b>Total liabilities</b>		<b>421,735</b>	<b>382,930</b>
<b>Shareholders' equity</b>			
Share capital	15	704,621	694,108
Accumulated deficit		(103,091)	(92,436)
Contributed surplus		38,480	40,905
Accumulated other comprehensive income		38,910	19,890
<b>Total shareholders' equity</b>		<b>678,920</b>	<b>662,467</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,100,655</b>	<b>1,045,397</b>

Approved by the Board of Directors on July 31, 2019.

The accompanying notes on pages 5 to 19 are an integral part of these condensed consolidated interim financial statements.

# Spin Master Corp.

## Condensed consolidated interim statements of operations and comprehensive income

(Unaudited, in thousands of United States dollars, except share data)	Notes	Three Months Ended June 30		Six Months Ended June 30	
		2019	2018	2019	2018
Revenue	3	320,973	311,544	559,968	597,215
Cost of sales		156,682	158,330	287,983	295,169
<b>Gross profit</b>		<b>164,291</b>	<b>153,214</b>	<b>271,985</b>	<b>302,046</b>
Expenses					
Selling, marketing, distribution and product development	6	71,213	63,675	132,183	122,099
Administrative expenses	6	74,402	67,140	140,601	144,091
Other income	4	(524)	(14,870)	(577)	(14,843)
Foreign exchange loss (gain)		3,560	(1,331)	9,939	(1,328)
Finance costs	5	2,613	2,214	5,280	3,814
<b>Income (loss) before income tax expense</b>		<b>13,027</b>	<b>36,386</b>	<b>(15,441)</b>	<b>48,213</b>
Income tax expense (recovery)	7	2,780	9,475	(4,786)	12,603
<b>Net income (loss)</b>		<b>10,247</b>	<b>26,911</b>	<b>(10,655)</b>	<b>35,610</b>
Items that may be subsequently reclassified to net income or (loss)					
Currency translation adjustment gain (loss)		7,952	(6,034)	19,020	(6,695)
<b>Other comprehensive gain (loss)</b>		<b>7,952</b>	<b>(6,034)</b>	<b>19,020</b>	<b>(6,695)</b>
<b>Total comprehensive income</b>		<b>18,199</b>	<b>20,877</b>	<b>8,365</b>	<b>28,915</b>
<b>Earnings (loss) per share</b>					
Basic and diluted	16	0.10	0.26	(0.10)	0.35
<b>Weighted average number of common shares outstanding</b>					
Basic	16	101,789,488	101,681,834	101,789,488	101,678,993
Diluted	16	102,679,775	101,918,087	101,789,488	101,923,299

The accompanying notes on pages 5 to 19 are an integral part of these condensed consolidated interim financial statements.

# Spin Master Corp.

## Condensed consolidated interim statements of changes in equity

(Unaudited, in thousands of United States dollars)	Note	Share capital	Accumulated deficit	Contributed surplus	Accumulated other comprehensive income	Total
<b>Balance at January 1, 2018</b>		<b>681,310</b>	<b>(247,340)</b>	<b>20,323</b>	<b>45,789</b>	<b>500,082</b>
Net income		—	35,610	—	—	35,610
Currency translation adjustment		—	—	—	(6,695)	(6,695)
Share-based compensation	15	—	—	4,135	—	4,135
Exercise of share options		375	—	(86)	—	289
<b>Balance at June 30, 2018</b>		<b>681,685</b>	<b>(211,730)</b>	<b>24,372</b>	<b>39,094</b>	<b>533,421</b>
<b>Balance at January 1, 2019</b>		<b>694,108</b>	<b>(92,436)</b>	<b>40,905</b>	<b>19,890</b>	<b>662,467</b>
Net loss		—	(10,655)	—	—	(10,655)
Currency translation adjustment		—	—	—	19,020	19,020
Share-based compensation	15	—	—	8,294	—	8,294
Settlement of LTIP	15	10,513	—	(10,719)	—	(206)
<b>Balance at June 30, 2019</b>		<b>704,621</b>	<b>(103,091)</b>	<b>38,480</b>	<b>38,910</b>	<b>678,920</b>

The accompanying notes on pages 5 to 19 are an integral part of these condensed consolidated interim financial statements.

# Spin Master Corp.

## Condensed consolidated interim statements of cash flows

For the six months ended June 30

(Unaudited, in thousands of United States dollars)

	Notes	2019	2018
<b>Operating activities</b>			
Net (loss) income		(10,655)	35,610
Adjustments to reconcile net income to cash provided by operating activities			
Income tax (recovery) expense	7	(4,786)	12,603
Interest (income) expense	5	(597)	553
Depreciation and amortization	6	46,191	31,083
Accretion expense - lease liabilities	5	2,243	—
Accretion expense - other	5	930	1,173
Amortization of financing costs	5	467	434
Impairment of property, plant and equipment		—	412
Share-based compensation expense	15	8,294	4,135
Changes in net working capital	17	(41,183)	(29,781)
Changes in contingent consideration liabilities		(48)	(1,314)
Income taxes paid		(19,395)	(39,845)
Interest paid		(241)	(342)
<b>Cash (used in) provided by operating activities</b>		<b>(18,780)</b>	<b>14,721</b>
<b>Investing activities</b>			
Property, plant and equipment	10	(22,336)	(33,631)
Intangible assets	11	(21,905)	(19,694)
Disposal of property, plant and equipment		504	—
Business acquisitions, net of cash acquired		—	(77,029)
<b>Cash used in investing activities</b>		<b>(43,737)</b>	<b>(130,354)</b>
<b>Financing activities</b>			
Proceeds from borrowings		—	45,000
Repayment of borrowings		—	(10,038)
Proceeds from exercise of share options		—	289
Payment of lease liabilities		(6,377)	—
<b>Cash (used in) provided by financing activities</b>		<b>(6,377)</b>	<b>35,251</b>
<b>Effect of foreign currency exchange rate changes on cash</b>		<b>2,493</b>	<b>(1,207)</b>
<b>Net decrease in cash during the period</b>		<b>(66,401)</b>	<b>(81,589)</b>
Cash, beginning of period		143,518	117,262
<b>Cash, end of period</b>		<b>77,117</b>	<b>35,673</b>

The accompanying notes on pages 5 to 19 are an integral part of these condensed consolidated interim financial statements.

## 1. Description of business

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

The Company has three reportable operating segments: North America, Europe and Rest of World (see Note 20). The North American segment is comprised of the United States and Canada. The European segment is comprised of the United Kingdom, France, Italy, the Netherlands, Germany, Austria, Switzerland, Belgium, Luxembourg, Slovakia, Hungary, Romania, Czech Republic, Poland, Russia and Greece. The Rest of World segment is primarily comprised of Hong Kong, China, Vietnam, India, Australia and Mexico, as well as all other areas of the world serviced by the Company's distribution network.

## 2. Summary of significant accounting policies

### (A) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed. The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated interim financial statements as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2018, except for the impact of the adoption of the Standards and Interpretations described below.

These condensed consolidated interim financial statements and accompanying notes were approved and authorized for issuance by the Board of Directors of the Company on July 31, 2019.

### (B) Basis of preparation

These condensed consolidated interim financial statements include the accounts of Spin Master Corp. and its subsidiaries and should be read in conjunction with the Company's consolidated financial statements, including the notes thereto, for the year ended December 31, 2018.

### (C) Functional and presentation currency

These interim consolidated financial statements are presented in United States dollars ("USD"), which is the Company's presentation currency; however, the functional currency of the Company is the Canadian dollar. The functional currency of the operating subsidiaries is typically the economic currency in the associated jurisdiction. At June 30, 2019 and 2018, the functional currencies of the Company's subsidiaries included the Canadian dollar, the Euro, the Great Britain pound, the Hong Kong dollar, the Mexican peso, the Chinese yuan, the Swedish krona and the Australian dollar. All financial information presented in USD has been rounded to the nearest thousand, except per share amounts and where otherwise indicated.

### (D) Application of new and revised IFRSs

Except as described below, the accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements for the year ended December 31, 2018. The changes in accounting policies will also be reflected in the Company's consolidated financial statements as at and for the year ending December 31, 2019.

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

### (D) Application of new and revised IFRSs (continued)

The Company has adopted IFRS 16 Leases from January 1, 2019. A number of other new standards are effective from January 1, 2019 but they do not have a material effect on the Company's financial statements.

#### IFRS 16 Leases

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. The Company, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Company has applied IFRS 16 using the modified retrospective method and has elected to set the right-of-use asset equal to the lease liability. As such the cumulative effect of initial application recognized in retained earnings at January 1, 2019 is nil. Accordingly, the comparative information presented for 2018 has not been restated and is presented as previously reported under IAS 17 and related interpretations. The Company has elected to not recognize right-of-use assets or lease liabilities for short-term leases and leases for which the underlying asset is of low value.

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Company now determines whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation or impairment losses and adjusted for certain re-measurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company primarily uses its incremental borrowing rate as the discount rate. The weighted average discount rate used was 6.1%. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company has applied judgment to determine both the applicable discount rate as well as the lease term for certain lease contracts in which it is a lessee that include renewal options. The discount rate is based on the Company's incremental borrowing rate and reflects the current market assessments of the time value of money and the associated risks for which the estimates of future cash flows have not been adjusted for. The assessment of whether the Company is reasonably certain to exercise renewal options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

On transition to IFRS 16, the Company recognized right-of-use assets and corresponding lease liabilities of \$83,419 on January 1, 2019. The Company has recognized depreciation expense of \$3,317 and \$5,659 in administrative expenses and accretion expense of \$1,157 and \$2,243 in finance costs in the condensed consolidated interim statements of operations and comprehensive (loss) income for the three and six months ended June 30, 2019, respectively.

Lease liabilities recognized in the condensed consolidated interim statement of financial position on the date of transition:

<b>Reconciliation of IFRS 16 transitional impact</b>	<b>January 1, 2019</b>
Operating lease commitments as at December 31, 2018	69,458
Discounted using the incremental borrowing rate at the date of initial application	56,527
Adjustments for renewal options reasonably certain to be exercised	19,782
Contracts assessed as leases under IFRS 16	7,110
<b>Total lease liabilities recognized</b>	<b>83,419</b>

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and June 30, 2018

## 3. Revenue

The Company earns revenue from the following primary sources:

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

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Revenue from sale of goods	290,598	278,443	500,675	534,275
Other revenue	30,375	33,101	59,293	62,940
<b>Total revenue</b>	<b>320,973</b>	<b>311,544</b>	<b>559,968</b>	<b>597,215</b>

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

## 4. Other (income) expenses

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Impairment of non-current assets	—	—	—	412
Other	(524)	(14,870)	(577)	(15,255)
<b>Total other income</b>	<b>(524)</b>	<b>(14,870)</b>	<b>(577)</b>	<b>(14,843)</b>

The Company was successful in a lawsuit as the plaintiff and agreed to a settlement of \$15,500 included in other (income) expenses in the consolidated statement of operations and comprehensive income for the three and six months ended June 30, 2018.

## 5. Finance costs

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Interest (income) expense	(147)	487	(597)	553
Bank fees	971	935	2,237	1,654
Accretion expense - lease liabilities	1,157	—	2,243	—
Accretion expense - other	399	577	930	1,173
Amortization of financing costs	233	215	467	434
<b>Total finance costs</b>	<b>2,613</b>	<b>2,214</b>	<b>5,280</b>	<b>3,814</b>

## 6. Expenses

Included within expenses are the following: selling, marketing, distribution and product development expenses, administrative expenses, including employee benefit expenses and a portion of depreciation and amortization expense.

*Selling, marketing, distribution and product development*

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Selling	21,974	19,082	37,938	34,770
Marketing	25,452	26,406	47,307	51,969
Distribution	16,340	11,235	33,215	22,729
Product development	7,447	6,952	13,723	12,631
<b>Total selling, marketing, distribution and product development</b>	<b>71,213</b>	<b>63,675</b>	<b>132,183</b>	<b>122,099</b>

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and June 30, 2018

## 6. Expenses (continued)

### Administrative expenses

	Note	Three Months Ended June 30		Six Months Ended June 30	
		2019	2018	2019	2018
Employee benefits expense		47,812	46,115	90,058	85,756
Restructuring		2,722	—	2,722	—
Technology		2,887	2,518	5,922	4,573
Professional services		4,978	4,540	9,993	11,038
Property and operations		6,504	7,883	11,882	15,504
Depreciation and amortization		7,969	3,100	14,835	5,437
Other	8	1,530	2,984	5,189	21,783
<b>Total administrative expenses</b>		<b>74,402</b>	<b>67,140</b>	<b>140,601</b>	<b>144,091</b>

### Employee benefits expenses

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Salaries, wages and bonuses	1,172	969	2,334	1,889
Other employee benefits	219	252	423	468
<b>Total employee benefits expenses in cost of sales</b>	<b>1,391</b>	<b>1,221</b>	<b>2,757</b>	<b>2,357</b>
Salaries, wages and bonuses	33,915	33,524	65,375	64,519
Share-based compensation	3,937	2,108	8,294	4,135
Restructuring	4,474	615	5,147	1,830
Other employee benefits	5,486	9,868	11,242	15,272
<b>Total employee benefits expenses in administrative expenses</b>	<b>47,812</b>	<b>46,115</b>	<b>90,058</b>	<b>85,756</b>
<b>Total employee benefits expenses</b>	<b>49,203</b>	<b>47,336</b>	<b>92,815</b>	<b>88,113</b>

### Depreciation and amortization expense

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Included in cost of sales	16,800	16,545	31,356	25,646
Included in administrative expenses	7,969	3,100	14,835	5,437
<b>Total depreciation and amortization expense</b>	<b>24,769</b>	<b>19,645</b>	<b>46,191</b>	<b>31,083</b>

## 7. Income tax

Income tax recognized in net (loss) income:

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Current tax (recovery) expense	2,594	9,620	(4,593)	12,728
Deferred tax (recovery) expense	186	(145)	(193)	(125)
<b>Total income tax (recovery) expense</b>	<b>2,780</b>	<b>9,475</b>	<b>(4,786)</b>	<b>12,603</b>

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and June 30, 2018

## 8. Trade and other receivables

<b>As at</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>
Trade receivables	352,427	403,981
Provisions for sales allowances	(100,214)	(135,005)
Allowance for doubtful accounts	(2,161)	(2,140)
	<b>250,052</b>	<b>266,836</b>
Other receivables	100,117	114,918
<b>Total trade and other receivables</b>	<b>350,169</b>	<b>381,754</b>

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

The Company recorded a bad debt expense in administrative expenses of \$15,152 in the first quarter of 2018, related to the legal motion filed by Toys R Us Inc. on March 15, 2018, to wind down and liquidate certain of Toys R Us Inc.'s businesses.

Other receivables include film and video production tax credits, royalties, commodity tax and other balances.

## 9. Inventories

<b>As at</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>
Raw materials	15,021	11,025
Finished goods	130,345	99,106
<b>Total inventories</b>	<b>145,366</b>	<b>110,131</b>

The cost of inventories recognized as an expense in cost of sales for the three and six months ended June 30, 2019 were \$131,495 and \$240,519 (June 30, 2018 - \$142,632 and \$263,541), respectively.

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and June 30, 2018

## 10. Property, plant and equipment

	Moulds, dies and tools	Equipment	Land and building	Computer hardware	Total
<b>Cost</b>					
Balance at December 31, 2017	112,304	18,114	12,870	9,763	<b>153,051</b>
Additions	20,864	7,007	22,763	2,827	<b>53,461</b>
Asset retirements	(15,412)	—	—	—	<b>(15,412)</b>
Asset impairments	(1,065)	—	—	—	<b>(1,065)</b>
Assets recognized upon acquisition	—	12	—	11	<b>23</b>
Foreign currency translation	(2,726)	(679)	(1,866)	(1,270)	<b>(6,541)</b>
<b>Total at December 31, 2018</b>	<b>113,965</b>	<b>24,454</b>	<b>33,767</b>	<b>11,331</b>	<b>183,517</b>
Additions	13,033	4,367	3,518	1,418	<b>22,336</b>
Asset retirements	(2,650)	(2,180)	(1,722)	(108)	<b>(6,660)</b>
Foreign currency translation	12	(103)	1,153	14	<b>1,076</b>
<b>Total at June 30, 2019</b>	<b>124,360</b>	<b>26,538</b>	<b>36,716</b>	<b>12,655</b>	<b>200,269</b>
<b>Accumulated depreciation</b>					
Balance at December 31, 2017	(90,754)	(13,265)	(7,793)	(8,261)	<b>(120,073)</b>
Depreciation	(20,492)	(1,998)	(3,546)	(952)	<b>(26,988)</b>
Asset retirements	15,412	—	—	—	<b>15,412</b>
Foreign currency translation	2,374	25	921	832	<b>4,152</b>
<b>Total at December 31, 2018</b>	<b>(93,460)</b>	<b>(15,238)</b>	<b>(10,418)</b>	<b>(8,381)</b>	<b>(127,497)</b>
Depreciation	(9,918)	(1,553)	(2,747)	(665)	<b>(14,883)</b>
Asset retirements	2,522	2,071	1,511	52	<b>6,156</b>
Foreign currency translation	117	(143)	(278)	72	<b>(232)</b>
<b>Total at June 30, 2019</b>	<b>(100,739)</b>	<b>(14,863)</b>	<b>(11,932)</b>	<b>(8,922)</b>	<b>(136,456)</b>
<b>Net carrying amount</b>					
<b>Total at December 31, 2018</b>	<b>20,505</b>	<b>9,216</b>	<b>23,349</b>	<b>2,950</b>	<b>56,020</b>
<b>Total at June 30, 2019</b>	<b>23,621</b>	<b>11,675</b>	<b>24,784</b>	<b>3,733</b>	<b>63,813</b>

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and June 30, 2018

## 11. Intangible assets

	Brands - indefinite	Trademarks, licenses & customer lists - definite	Content development	Computer software	Total
<b>Cost</b>					
Balance, December 31, 2017	83,002	35,983	94,680	18,147	231,812
Additions	—	—	25,520	3,527	29,047
Assets recognized upon acquisition	33,900	9,500	—	—	43,400
Foreign currency translation	(3,549)	383	(7,014)	(1,873)	(12,053)
<b>Total at December 31, 2018</b>	<b>113,353</b>	<b>45,866</b>	<b>113,186</b>	<b>19,801</b>	<b>292,206</b>
Additions	—	—	19,458	2,447	21,905
Foreign currency translation	1,288	165	4,036	841	6,330
<b>Total at June 30, 2019</b>	<b>114,641</b>	<b>46,031</b>	<b>136,680</b>	<b>23,089</b>	<b>320,441</b>
<b>Accumulated amortization</b>					
Balance, December 31, 2017	—	(5,818)	(63,908)	(16,921)	(86,647)
Amortization	—	(6,315)	(38,880)	(2,012)	(47,207)
Foreign currency translation	—	269	5,483	1,734	7,486
<b>Total at December 31, 2018</b>	<b>—</b>	<b>(11,864)</b>	<b>(97,305)</b>	<b>(17,199)</b>	<b>(126,368)</b>
Amortization	—	(3,418)	(21,242)	(989)	(25,649)
Foreign currency translation	—	(35)	(3,440)	(671)	(4,146)
<b>Total at June 30, 2019</b>	<b>—</b>	<b>(15,317)</b>	<b>(121,987)</b>	<b>(18,859)</b>	<b>(156,163)</b>
<b>Net carrying amount</b>					
<b>Balance at December 31, 2018</b>	<b>113,353</b>	<b>34,002</b>	<b>15,881</b>	<b>2,602</b>	<b>165,838</b>
<b>Balance at June 30, 2019</b>	<b>114,641</b>	<b>30,714</b>	<b>14,693</b>	<b>4,230</b>	<b>164,278</b>

## 12. Goodwill

As at	June 30, 2019	December 31, 2018
Beginning of period	124,187	105,487
Additions during the period	—	19,629
Foreign currency translation	948	(929)
<b>End of period</b>	<b>125,135</b>	<b>124,187</b>

There have been no impairment losses recognized with respect to goodwill for the three and six months ended June 30, 2019 (June 30, 2018 - nil).

## 13. Trade payables and other liabilities

As at	June 30, 2019	December 31, 2018
Trade payables	157,177	160,570
Accrued liabilities	116,056	162,445
<b>Total trade payables and other liabilities</b>	<b>273,233</b>	<b>323,015</b>

During the six months ended June 30, 2019, the Company executed the restructuring of the Gund, Swimways, Cardinal and other business units. Included within accrued liabilities is a restructuring provision of \$4,307 for the period ended June 30, 2019 (\$3,372 - December 31, 2018).

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

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and June 30, 2018

## 14. Provisions and contingent liabilities

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

## 15. Share capital

(a) *Authorized as at June 30, 2019 and December 31, 2018*

Unlimited number of multiple voting shares;

Unlimited number of subordinate voting shares; and

Unlimited number of preferred shares issuable in series.

<b>As at</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>
Multiple voting shares	375,115	375,115
Subordinate voting shares	329,506	318,993
<b>Total share capital</b>	<b>704,621</b>	<b>694,108</b>

	<b>Number of shares</b>	<b>Number of shares</b>
Multiple voting shares	70,697,887	70,697,887
Subordinate voting shares	31,465,180	31,091,601
<b>Total number of common shares issued and outstanding</b>	<b>102,163,067</b>	<b>101,789,488</b>

(b) *Share-based plans*

### Participation arrangements

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

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

As at June 30, 2019, 1,683,370 (December 31, 2018 - 1,683,370) subordinate voting shares were outstanding relating to the Participation Arrangements with a weighted average grant date fair value of \$23,485 (December 31, 2018 - \$23,485).

The weighted average remaining contractual life for Participation Arrangements outstanding as at June 30, 2019 is 12 months.

Share based compensation expense of \$1,989 (2018 - \$3,330) relating to Participation Arrangements is recorded in administrative expenses in the condensed consolidated interim statement of operations and comprehensive income for the six months ended June 30, 2019.

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and June 30, 2018

## 15. Share capital (continued)

### Long-Term Incentive Plan ("LTIP")

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

During the three months ended June, 30, 2019, the Company settled vested LTIP grants with a settlement value of \$10,513 (nil - June 30, 2018) through the issuance of shares. A corresponding entry was recorded in contributed surplus.

#### RSUs and PSUs

Below is a summary of the activity related to RSUs and PSUs outstanding as at June 30, 2019 and December 31, 2018.

(number of units)	June 30,	December 31,
	2019	2018
Outstanding, beginning of period	708,090	807,217
Granted	395,518	315,511
Exercised	(373,579)	(371,325)
Forfeited	(25,073)	(43,313)
<b>Outstanding, end of period</b>	<b>704,956</b>	<b>708,090</b>

Included in the above table are grants of 523,655 PSUs to certain key employees during the six months ended June 30, 2019 (December 31, 2018 - 229,588).

Share based compensation expense of \$5,391 (2018 - \$6,825) relating to RSUs and PSUs is recorded in administrative expenses in the condensed consolidated interim statement of operations and comprehensive income for the six months ended June 30, 2019. Corresponding entries were recorded in contributed surplus and in accrued liabilities in the prior year. Prior to August 1, 2018, the Company settled LTIP awards in cash, resulting in their recognition as liabilities, which were marked to market each period. Effective August 1, 2018, settlements of LTIP awards occur through the issuance of shares. As a result, the LTIP liabilities were reclassified to shareholders equity and are no longer marked to market.

#### Deferred Share Units ("DSUs")

Below is a summary of the activity related to DSUs outstanding as at June 30, 2019 and December 31, 2018.

(number of units)	June 30,	December 31,
	2019	2018
Outstanding, beginning of period	60,393	67,644
Granted	9,759	11,098
Exercised	—	(18,349)
<b>Outstanding, end of period</b>	<b>70,152</b>	<b>60,393</b>

Share based compensation expense of \$146 (2018 - \$461) relating to DSUs is recorded in administrative expenses in the condensed consolidated interim statement of operations and comprehensive income for the six months ended June 30, 2019. A corresponding amount was recorded in accrued liabilities.

#### Share Purchase Options ("Options")

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

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and June 30, 2018

## 15. Share capital (continued)

The following is a summary of the activity of the outstanding Options:

	Number of Options	Weighted average exercise price (CAD)
Outstanding, beginning of period	685,741	\$33.70
Granted	158,544	\$37.96
<b>Outstanding, end of period</b>	<b>844,285</b>	<b>\$34.50</b>

The weighted average fair value of the Options granted during the six months ended June 30, 2019 and 2018 were estimated at the grant date based on the Black-Scholes option pricing model using the following assumptions:

	Six Months Ended June 30	
	2019	2018
Exercise price per share	\$37.96	\$52.20
Dividend yield	—	—
Risk-free interest rate	1.5%	2.1%
Expected life	6.25 years	6.25 years
Expected volatility	31.9%	31.7%
<b>Weighted average fair value of Options at grant date</b>	<b>\$37.96</b>	<b>\$52.20</b>

Share based compensation expense of \$914 (2018 - \$805) relating to Options is recorded in administrative expenses in the condensed consolidated interim statement of operations and comprehensive income for the six months ended June 30, 2019.

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

	Six Months Ended June 30	
	2019	2018
Expense arising from equity-settled Participation Arrangements transactions	1,989	3,330
Expense arising from Options	914	805
Expense arising from equity-settled RSUs and PSUs	5,391	—
<b>Total share based compensation expense</b>	<b>8,294</b>	<b>4,135</b>

Share based compensation expense of \$8,294 (2018 - \$4,135) is recorded in administrative expenses in the condensed consolidated interim statement of operations and comprehensive income for the six months ended June 30, 2019. A corresponding amount was recorded in contributed surplus.

## 16. Earnings per share

Details of the calculations of (loss) earnings per share are set out below:

	Three months ended June 30, 2019		Three months ended June 30, 2018	
	Weighted average number of shares	Per common share amount (\$)	Weighted average number of shares	Per common share amount (\$)
Basic	101,789,488	0.10	101,681,834	0.26
Diluted	102,679,775	0.10	101,918,087	0.26

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and June 30, 2018

## 16. Earnings per share (continued)

	Six months ended June 30, 2019		Six months ended June 30, 2018	
	Weighted average number of shares	Per common share amount (\$)	Weighted average number of shares	Per common share amount (\$)
Basic	101,789,488	(0.10)	101,678,993	0.35
Diluted	101,789,488	(0.10)	101,923,299	0.35

The Participation Arrangements issued to employees upon the Initial Offering as subordinate voting shares resulted in the issuance of fewer multiple voting shares to the principal shareholders. As these share issuances are anti-dilutive, they are not included in the computation of diluted earnings per share. Effective August 1, 2018, all LTIP related awards are included in the computation of diluted earnings per share.

## 17. Changes in net working capital

Six Months Ended June 30	2019	2018
<b>Decrease (increase) in:</b>		
Trade and other receivables	47,948	14,375
Inventories	(34,859)	11,237
Prepaid expenses	514	(8,740)
Advances on royalties	4,579	4,051
	<b>18,182</b>	<b>20,923</b>
<b>(Decrease) increase in:</b>		
Trade payables and other liabilities	(65,445)	(48,820)
Contract liabilities	193	1,497
Provisions	(3,672)	(2,788)
Other	9,559	(593)
	<b>(59,365)</b>	<b>(50,704)</b>
<b>Total changes in net working capital</b>	<b>(41,183)</b>	<b>(29,781)</b>

## 18. Commitments for expenditures

As at June 30, 2019, the Company had minimum guarantees to licensors of \$34,581 (December 31, 2018 - \$23,354).

## 19. Financial instruments and risk management

### Fair value measurements

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

As at	June 30, 2019	December 31, 2018
<b>Financial assets</b>		
Cash	77,117	143,518
Trade and other receivables	350,169	381,754
<b>Total</b>	<b>427,286</b>	<b>525,272</b>
<b>Financial liabilities</b>		
Trade payables and other liabilities	273,233	323,015
Provisions	27,257	30,976
<b>Total</b>	<b>300,490</b>	<b>353,991</b>

## 19. Financial instruments and risk management *(continued)*

The fair value of foreign exchange forward contracts represented an asset of \$1,757 as at June 30, 2019 (December 31, 2018 - liability of \$1,017). These fair values are categorized within Level 2 of the fair value hierarchy. The fair value of foreign exchange forward contracts is estimated based on forward exchange rates observable at the end of the reporting period and contract forward rates.

### Foreign currency risk

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

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

As at June 30, 2019, the Company is committed under outstanding foreign exchange forward contracts to purchase USD, representing total purchase commitments of \$22,905 over the next 12 months (December 31, 2018 - \$39,259).

## 20. Segment information

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

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

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

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and June 30, 2018

## 20. Segment information (continued)

### Segment revenue and results

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Revenue by segment</b>				
North America	203,942	201,543	345,452	386,187
Europe	63,387	44,381	128,043	111,174
Rest of world	49,424	50,279	83,737	86,887
<b>Gross product sales</b>	<b>316,753</b>	<b>296,203</b>	<b>557,232</b>	<b>584,248</b>
Sales allowances	26,155	17,760	56,557	49,973
<b>Total net sales</b>	<b>290,598</b>	<b>278,443</b>	<b>500,675</b>	<b>534,275</b>
Other revenue	30,375	33,101	59,293	62,940
<b>Total revenue</b>	<b>320,973</b>	<b>311,544</b>	<b>559,968</b>	<b>597,215</b>
<b>Segment income (loss)</b>				
North America	11,573	31,042	(8,945)	44,584
Europe	2,172	3,278	(1,129)	4,737
Rest of world	1,113	3,247	42	4,613
<b>Total segment income (loss)</b>	<b>14,858</b>	<b>37,567</b>	<b>(10,032)</b>	<b>53,934</b>
Corporate and other	(1,831)	(1,181)	(5,409)	(5,721)
<b>Income (loss) before income tax (recovery) expense</b>	<b>13,027</b>	<b>36,386</b>	<b>(15,441)</b>	<b>48,213</b>

Revenues for North America include revenues attributable to Canada of \$36,493 (2018 - \$42,554) and \$69,554 (2018 - \$80,526) for the three and six months ended June 30, 2019 and June 30, 2018, respectively.

Revenue reported by segment above represents revenue generated from external customers. There were no inter-segment sales in the current year (2018 - nil). The Company does not include sales adjustments such as trade discounts and other allowances in reporting revenue by segment (referred to as "gross product sales").

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

### Segment assets

As at	June 30,	December 31,
	2019	2018
North America	712,632	720,883
Europe	112,373	143,229
Rest of world	87,133	77,130
<b>Total segment assets</b>	<b>912,138</b>	<b>941,242</b>
Corporate and other	188,517	104,155
<b>Total consolidated assets</b>	<b>1,100,655</b>	<b>1,045,397</b>

# Spin Master Corp.

Unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and June 30, 2018

## 20. Segment information (continued)

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

As at	June 30, 2019	December 31, 2018
North America	301,388	295,521
Europe	15,510	13,253
Rest of world	9,123	7,567
<b>Total segment non-current assets</b>	<b>326,021</b>	<b>316,341</b>
Corporate and other	137,849	60,799
<b>Total consolidated non-current assets</b>	<b>463,870</b>	<b>377,140</b>

Non-current assets for North America include assets attributable to Canada of \$82,348 as at June 30, 2019 (December 31, 2018 - \$91,037).

### Segment liabilities

As at	June 30, 2019	December 31, 2018
North America	214,017	271,371
Europe	37,716	48,107
Rest of world	33,817	40,710
<b>Total segment liabilities</b>	<b>285,550</b>	<b>360,188</b>
Corporate and other	136,185	22,742
<b>Total consolidated liabilities</b>	<b>421,735</b>	<b>382,930</b>

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

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

### Depreciation and amortization by reportable segment

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
North America	16,432	16,822	32,264	25,347
Europe	1,621	1,181	3,621	2,703
Rest of world	966	946	1,793	1,640
<b>Total segment depreciation and amortization</b>	<b>19,019</b>	<b>18,949</b>	<b>37,678</b>	<b>29,690</b>
Corporate and other	5,750	696	8,513	1,393
<b>Total consolidated depreciation and amortization</b>	<b>24,769</b>	<b>19,645</b>	<b>46,191</b>	<b>31,083</b>

# Spin Master Corp.

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## 20. Segment information (continued)

In addition to the depreciation and amortization reported above, no impairment losses were recognized in respect of property, plant and equipment and intangible assets for the six months ended June 30, 2019 (2018 - \$412).

### Revenue from major product categories

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Activities, games & puzzles and plush	80,105	86,195	143,136	143,786
Remote control and interactive characters	44,504	68,325	75,553	159,481
Boys action and high-tech construction	64,012	21,175	113,431	37,900
Pre-school and girls	96,439	87,440	159,778	170,013
Outdoor	31,693	33,068	65,334	73,068
<b>Gross product sales</b>	<b>316,753</b>	<b>296,203</b>	<b>557,232</b>	<b>584,248</b>
Sales allowances	26,155	17,760	56,557	49,973
<b>Total net sales</b>	<b>290,598</b>	<b>278,443</b>	<b>500,675</b>	<b>534,275</b>
Other revenue	30,375	33,101	59,293	62,940
<b>Total revenue</b>	<b>320,973</b>	<b>311,544</b>	<b>559,968</b>	<b>597,215</b>

### Major customers

Sales to the Company's largest customer accounted for 25.6% (2018 - 24.9%) and 24.7% (2018 - 23.9%) of consolidated gross product sales for the three and six months ended June 30, 2019, respectively. The Company's second largest customer accounted for 14.0% (2018 - 15.5%) and 13.5% (2018 - 14.8%). Other than the top two customers, no other single customer contributed 10% or more to gross product sales of the Company for the six months ended June 30, 2019.