Spin Master Corp.

Annual consolidated financial statements

For the years ended December 31, 2018 and December 31, 2017

Table of contents

Deloitte.

Deloitte LLP
195 Joseph Street
Kitchener ON N2G 1J6
Canada

Tel: 519-650-7600
Fax: 519-650-7601
www.deloitte.ca

Independent Auditor's Report

To the Shareholders of
Spin Master Corp.

Opinion

We have audited the consolidated financial statements of Spin Master Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Steven Lawrenson.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
March 6, 2019

Spin Master Corp.

Consolidated statements of financial position as at December 31, 2018 and December 31, 2017

(thousands of United States dollars)	Notes	2018	2017
Assets			
Current assets			
Cash		143,518	117,262
Trade and other receivables	**9**	381,754	369,719
Inventories	**10**	110,131	120,329
Prepaid expenses		32,854	20,500
		668,257	**627,810**
Non-current assets			
Advances on royalties		10,091	5,000
Property, plant and equipment	**11**	56,020	32,978
Intangible assets	**12**	165,838	145,165
Goodwill	**13**	124,187	105,487
Deferred tax assets	**8**	21,004	21,945
		377,140	**310,575**
Total assets		**1,045,397**	**938,385**
Liabilities			
Current liabilities			
Trade payables and other liabilities	**14**	323,015	350,757
Loans and borrowings	**15**	—	531
Contract liabilities		6,927	10,472
Provisions	**16**	29,233	25,398
Interest payable		—	45
Income tax payable	**8**	6,520	37,290
		365,695	**424,493**
Non-current liabilities			
Provisions	**16**	1,743	5,735
Deferred tax liabilities	**8**	15,492	8,075
		17,235	**13,810**
Total liabilities		**382,930**	**438,303**
Shareholders' equity			
Share capital	**17**	694,108	681,310
Accumulated deficit		(92,436)	(247,340)
Contributed surplus		40,905	20,323
Accumulated other comprehensive income		19,890	45,789
Total shareholders' equity		**662,467**	**500,082**
Total liabilities and shareholders' equity		**1,045,397**	**938,385**

Approved by the Board of Directors on March 6, 2019.

The accompanying notes on pages 5 to 42 are an integral part of these consolidated financial statements.

Spin Master Corp.

Consolidated statements of operations and comprehensive income

For the year ended December 31 (thousands of United States dollars, except share data)	Notes	2018	2017
Revenue	4	1,631,537	1,551,324
Cost of sales		812,768	750,868
Gross profit		**818,769**	**800,456**
Expenses			
Selling, marketing, distribution and product development	7	331,899	312,186
Administrative expenses	7	293,101	262,066
Other (income) expenses	5	(14,709)	6,700
Foreign exchange gain		(9,346)	(11,370)
Finance costs	6	9,398	10,445
Income before income tax expense		**208,426**	**220,429**
Income tax expense	8	53,522	59,363
Net income		**154,904**	**161,066**
Items that may be subsequently reclassified to net income or (loss)			
Currency translation adjustment (loss) gain		(25,899)	3,255
Other comprehensive (loss) gain		**(25,899)**	**3,255**
Total comprehensive income		**129,005**	**164,321**
Earnings per share			
Basic	18	1.52	1.58
Diluted	18	1.51	1.58
Weighted average number of common shares outstanding			
Basic	18	101,726,714	101,675,906
Diluted	18	102,252,581	101,846,680

The accompanying notes on pages 5 to 42 are an integral part of these consolidated financial statements.

Spin Master Corp.
Consolidated statements of changes in equity

(thousands of United States dollars)	Note	Share capital	Accumulated deficit	Contributed surplus	Accumulated other comprehensive income	Total
Balance at January 1, 2017		**670,115**	**(408,406)**	**21,436**	**42,534**	**325,679**
Net income		—	161,066	—	—	**161,066**
Currency translation adjustment		—	—	—	3,255	**3,255**
Share-based compensation	**17**	—	—	10,082	—	**10,082**
Shares released from equity participation	**17**	11,195	—	(11,195)	—	**—**
Balance at December 31, 2017		**681,310**	**(247,340)**	**20,323**	**45,789**	**500,082**
Balance at January 1, 2018		**681,310**	**(247,340)**	**20,323**	**45,789**	**500,082**
Net income		—	154,904	—	—	**154,904**
Currency translation adjustment		—	—	—	(25,899)	**(25,899)**
Share-based compensation	**17**	—	—	12,193	—	**12,193**
Shares released from equity participation	**17**	8,497	—	(8,497)	—	**—**
Exercise of share options	**17**	375	—	(86)	—	**289**
Settlement of LTIP		3,926	—	—	—	**3,926**
Change in LTIP settlement method	**17**	—	—	16,972	—	**16,972**
Balance at December 31, 2018		**694,108**	**(92,436)**	**40,905**	**19,890**	**662,467**

The accompanying notes on pages 5 to 42 are an integral part of these consolidated financial statements.

Spin Master Corp.

Consolidated statements of cash flows

For the year ended December 31 (thousands of United States dollars)	Notes	2018	2017
Operating activities			
Net income		154,904	161,066
Adjustments to reconcile net income to cash provided by operating activities			
Income tax expense	**8**	53,522	59,363
Interest expense	**6**	292	3,357
Depreciation and amortization	**7, 11, 12**	74,195	44,908
Amortization of fair value increments to inventories acquired in business combinations		3,692	2,805
Accretion expense	**6**	2,287	2,559
Amortization of financing costs	**6**	908	879
Impairment	**5, 11, 12**	1,065	9,693
Share-based compensation expense	**17**	12,193	10,082
Changes in net working capital	**19**	(19,067)	16,782
Changes in contingent consideration liabilities		(3,992)	(6,290)
Income taxes paid		(76,019)	(34,878)
Interest paid		(496)	(2,921)
Share-based compensation payments		(10,594)	—
Cash provided by operating activities		**192,890**	**267,405**
Investing activities			
Capital expenditures - property, plant and equipment	**11**	(53,461)	(25,918)
Capital expenditures - intangible assets	**12**	(29,047)	(31,264)
Business acquisitions, net of cash acquired	**23**	(77,029)	(24,416)
Cash used in investing activities		**(159,537)**	**(81,598)**
Financing activities			
Proceeds from borrowings	**15**	45,000	25,791
Repayment of borrowings	**15**	(45,044)	(187,276)
Proceeds from exercise of share options		289	—
Cash provided by (used in) financing activities		**245**	**(161,485)**
Effect of foreign currency exchange rate changes on cash		**(7,342)**	**(6,476)**
Net increase in cash during the year		**26,256**	**17,846**
Cash, beginning of year		117,262	99,416
Cash, end of year		**143,518**	**117,262**

The accompanying notes on pages 5 to 42 are an integral part of these consolidated 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 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 25). 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 and Russia. 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 and basis of preparation and measurement

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). All financial information is presented in thousands of United States dollars ("USD"), except as otherwise indicated.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on March 6, 2019.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is measured on the fair value of the consideration provided in exchange for goods and services.

(B) Application of new and revised IFRS

IFRS 15 Revenue from Contracts with Customers

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, Revenue from Contracts with Customers, which replaced International Accounting Standards ("IAS") 11 Construction Contracts ("IAS 11"), IAS 18 Revenue ("IAS 18"), International Financial Reporting Interpretations Committee 13 Customer Loyalty Programs ("IFRIC 13") and related interpretations regarding revenue.

The guidance permits two methods of adoption: retrospectively, with each prior reporting period restated (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method).

The Company adopted IFRS 15, Revenue from Contracts with Customers, effective January 1, 2018, using the full retrospective method, with no significant impact on the Company's consolidated financial statements. Accordingly, the information presented for 2017 has not been restated and is presented as previously reported under IAS 18, IAS 11 and related interpretations. The Company utilized the practical expedient whereby the Company recognizes incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the Company otherwise would have recognized is one year or less.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 introduces a new expected credit loss ("ECL") model for all financial assets in scope of the impairment requirements. The new ECL will result in an allowance for credit losses being recorded on financial assets irrespective of whether there has been an actual loss event.

The Company adopted the amendments to IFRS 9, Financial Instruments effective January 1, 2018 using the full retrospective method, with no significant impact on the Company's consolidated financial statements.

2. Significant accounting policies (continued)

(B) Application of new and revised IFRS (continued)

IFRS 2 Share Based Payments

The IASB issued amendments to IFRS 2, Share Based Payments. The amendment is intended to clarify the estimation of the fair value of cash settled share based payments. The Company adopted the amendments to IFRS 2, Share Based Payments, effective January 1, 2018, using the full retrospective method, with no significant impact on the Company's consolidated financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The IASB has reached the consensus that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The Company adopted the amendments to IFRIC 22, Foreign Currency Transactions and Advance Consideration, effective January 1, 2018, with no significant impact on the Company's consolidated financial statements.

(C) Basis of preparation

The consolidated financial statements incorporate the financial statement accounts of the Company and entities controlled by the Company and its subsidiaries (the “Group”). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of operations and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

(D) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustment against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the “measurement period” (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

2. Significant accounting policies (continued)

(D) Business combinations (continued)

All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with the relevant policy. Changes in the fair value of contingent consideration classified as equity are not recognized.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known would have affected the amounts recognized at that time.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is measured as the excess of the sum of the consideration transferred, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. For the purposes of impairment testing, goodwill is allocated to each of the Company's Cash-Generating Units ("CGUs") (or groups of CGUs) that are expected to benefit from the combination.

(E) Goodwill

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit.

Any impairment loss for goodwill is recognized directly in profit or loss, and an impairment loss recognized for goodwill is not reversed in subsequent periods. On disposal of the relevant CGU, the attributed amount of goodwill is included in the determination of the profit or loss on disposal.

(F) Revenue recognition

Sale of Goods

The majority of the Company's revenue is derived from the sales of toys and related products to retail customers and distributors in select international markets. Revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Revenue is measured based on the consideration to which an entity expects to be entitled to in exchange for transferring promised goods and excludes amounts collected on behalf of third parties. The Company recognizes revenue when control of the goods has transferred, which is determined by respective shipping terms and certain additional considerations. Invoices are generally issued at the time of delivery (which is when the Company has satisfied its performance obligations under the arrangement). As such, a receivable is recognized as the consideration is unconditional and only the passage of time is required before payment is due. The Company does not have performance obligations subsequent to delivery on the sale of goods to customers and revenues from sale of goods are recognized upon passing of control to the customer.

The Company routinely enters into arrangements with its customers to provide sales incentives, support customer promotion and provides allowances for returns and defective merchandise. Such programs are based primarily on purchases, customer performance of specified promotional activities and other specified factors which are not necessarily stipulated in the customers contract.

Revenue represents the amount of consideration to which the Company expects to be entitled to through the sale of goods excluding sales tax and after the application of the variable consideration constraint. Variable consideration includes estimates for defective products, sales allowances and returns by customers made based on certain judgments, contractual terms and conditions and historical data. The Company uses the expected value method to quantify the variable consideration. The Company monitors periodic results against historical data and makes any adjustments to both sales discounts and returns accruals as required.

Television distribution, royalty and license sales

Television distribution sales, which are generated by the use of the Company's brands and other intellectual property through the production of television and streaming programming for licensing to third parties, are recognized in accordance with the relevant agreements. The license is assessed as either providing the customer with a 'right to

2. Significant accounting policies (continued)

(F) Revenue recognition (continued)

use' or 'right to access' license and revenue is recognized at a point-in-time or over time based on the classification determined. The license to distribute television and streaming programming grants a right to use the Company's brands and other intellectual property. The licensee pays a fixed fee for the license of the produced content. Revenue is recognized upon delivery of the television or streaming programming and is measured based on the consideration to which the Company expects to be entitled to upon delivery. There are no future performance obligations associated with the delivery of the programs.

For royalty and licensing revenues that are generated by the use the Company's brands and other intellectual property, the license is assessed as either providing the customer with a 'right-to-use' or 'right-to-access' license and revenue is recognized at a point-in-time or over time based on the classifications determined. Judgment is required in determining the appropriate classification. The license of the Company's brands provide access to the intellectual property over the term of the license and is considered a right-to-access license of intellectual property. The Company records sales-based or usage-based royalty revenues for right-to-access licenses upon occurrence of the licensees' subsequent sale or usage.

Customer advances on contracts, licensing and/or television distribution, are recorded in contract liabilities until all of the foregoing revenue recognition conditions have been met. This does not give rise to a significant financing component as the timing difference between when the customer advances are recorded and the revenue recognition conditions being fulfilled are protective for both parties of a contract, to protect against failure of completion of some of their obligations under the contract.

Digital applications ("apps")

The Company develops apps which are hosted by third-party platform providers. The Company is the principal in the arrangement and revenues are recorded in other revenue on a gross basis. The fees charged by the third-party platform providers are recorded within cost of sales. Revenue associated with the sale of apps are recognized when control is transferred. This condition is typically met when the end-user purchases and downloads the app from the third-party. The end users can make in-app purchases and the Company recognizes revenue at the time of sale. The Company has no additional performance obligations other than delivery of apps to the third-party platform providers. The Company controls all aspects of the apps delivered to the end user. The third party platform providers are providing the service of hosting and administrating receipt from the end users.

Disaggregation of revenue

The Company disaggregates its revenues from contracts with customers by segment: North America, Europe and Rest of World. The Company further disaggregates revenues by category: Activities, games and puzzles, Remote control and interactive characters, Boys action and high-tech construction, Pre-school and girls and Outdoor. The Company believes these collectively depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. See Note 25 Segment information for further information.

(G) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(H) Foreign currencies

The Company reports its financial results in United States Dollars ("USD"); however, the functional currency of the Company is the Canadian dollar.

The assets and liabilities of foreign operations that have a functional currency different from that of the Company, including goodwill and fair value adjustments arising on acquisition, are translated into the Company's functional currency of Canadian dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during

2. Significant accounting policies (continued)

(H) Foreign currencies (continued)

that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in the foreign currency translation adjustment as part of other comprehensive income.

In preparing the financial statements of each individual Group entity, transactions in currencies other than the Group entity's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. The resulting foreign currency exchange gains or losses are recognized in net income or loss.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into USD using exchange rates prevailing at the end of each reporting period. Income and expense items are translated in the same manner as above with exchange differences impacting other comprehensive income and accumulated in equity.

At December 31, 2018 and 2017, the functional currencies of the Groups subsidiaries included the Canadian dollar, the Euro, the Great Britain pound, the Hong Kong dollar, the Mexican peso, the Chinese yuan, the Vietnam dong, the Japan yen, the Swedish krona, the Australian dollar, the Indian rupee, Polish zloty, and the Russian ruble.

(I) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing net income by the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding, assuming the conversion of all dilutive securities were exercised during the period. Securities refer to all outstanding stock options, RSUs, and PSUs.

(J) Income taxes

Income tax expense represents the sum of the taxes currently payable and deferred taxes.

Current tax

For each entity in the Group, the tax currently payable is based on taxable income for the year. Taxable income differs from "income before income tax expense" as reported on the consolidated statement of operations and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax expense is calculated using income tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than a business combination) of assets and liabilities in a transaction that does not affect either taxable income or net income before income taxes. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the income tax rates that are expected to apply in the period in which the liability is expected to be settled or the asset realized, based on income tax rates (and income tax laws) that have been enacted or substantively enacted at the end of the reporting period, reflecting the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

2. Significant accounting policies *(continued)*

(J) Income taxes (continued)

Current and deferred tax for the period

Current and deferred tax expense are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax expenses are also recognized in other comprehensive income or directly in equity, respectively. Where current deferred taxes arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(K) *Cash*

Cash includes cash on hand and in banks, net of outstanding bank overdrafts.

(L) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Repairs and maintenance costs are recognized in profit or loss as incurred. Depreciation is recognized so as to depreciate the cost or valuation of assets less their residual values over their useful lives, using the straight-line method or declining balance method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The following are the estimated useful lives for the major classes of property, plant and equipment:

Land	Not depreciated
Buildings	30 years
Moulds, dies and tools	2 years
Office equipment	3 years
Leasehold improvements	Lesser of lease term or 5 years
Computer hardware	3 years
Machinery and equipment	30% declining balance

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognized in profit or loss.

(M) Intangible assets

The following are the estimated useful lives for the major classes of intangible assets:

Brands	Indefinite
Character trademarks	5 years
Customer lists	5 years
Intellectual property	10 years
Non-competition agreements	1 year
Content development	1-5 years
Computer software	1 year

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if any.

2. Significant accounting policies *(continued)*

(M) Intangible assets (continued)

Amortization is recognized on a straight-line basis over the estimated useful life of the intangible assets. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives, such as brands that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair values at the acquisition date (which is regarded as their initial cost).

Subsequent to initial recognition, intangible assets acquired in business combinations are reported at cost less accumulated amortization if applicable and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Internally-generated intangible assets - research and development expenditures

Expenditures on research activities are recognized as incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized only if all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset for use or sale;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditures are recognized in profit or loss in the period in which they are incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Television production assets

Television production assets are a component of intangible assets and are recorded at cost as content development. Capitalized costs net of anticipated federal and provincial tax credits are charged to amortization expense as completed episodes are delivered on a pro-rata basis over the total number of episodes for the season. The federal and provincial tax credits are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the tax credits will be received.

Contract liabilities related to television production assets arises as a result of consideration received in advance of the Company fulfilling its obligations.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, otherwise, they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives or that are not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

2. Significant accounting policies *(continued)*

(M) Intangible assets (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss equal to the difference between the carrying and recorded amounts is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(N) Advances on royalties

The Company enters into license agreements with inventors and licensors for the use of their intellectual properties in its products. These agreements may call for payment in advance or future payment of minimum guaranteed amounts. Amounts paid in advance are initially recorded as an asset and subsequently expensed to net income or loss as revenue from the related products is recognized. If all or a portion of an advance does not appear to be recoverable through future use of the rights obtained under license, the non-recoverable portion is expensed immediately in profit or loss.

(O) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a standard cost basis, and includes the purchase price and other costs, such as import duties, taxes and transportation costs. Trade discounts and rebates are deducted from the purchase price. Net realizable value represents the estimated selling price for inventories in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale. Reserves for excess and obsolete inventory are based upon quantities on hand, projected volumes from demand forecast and net realizable value. The impact of changes in inventory reserves is reflected in cost of sales.

(P) Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of the amount expected to be required to settle the obligation and are re-measured each reporting date.

<u>Future royalty obligations</u>

Where the Company is committed to pay royalties on sales of acquired brands, the future royalty obligation is based on the Company's estimate of the related brands future sales, discounted for the timing of expected payments.

<u>Provision for defectives</u>

Defectives refer to when the end consumer returns defective goods to the Company's customers. Customers without a fixed allowance for defectives are eligible for a credit for the cost of the product if returned as defective by the end consumer. The estimate of defectives is made based on the class and nature of the product and is recorded as a reduction to revenue in the consolidated statements of operations and comprehensive income.

<u>Supplier obligations</u>

Supplier obligations represent the estimated compensation to be paid to suppliers for lower than expected volumes purchased, resulting in the supplier having excess raw material and finished goods inventories. While payments are not contractually required, the Company regularly compensates suppliers to maintain supplier relationships, which represents a constructive obligation due to past practices. The supplier obligation is based on an estimate of the cost of the supplier's excess raw material and finished goods inventory.

2. Significant accounting policies *(continued)*

(P) Provisions (continued)

Share-based payments

As part of the Company's Initial Public Offering (the "Initial Offering"), employees were granted subordinate voting shares through equity participation arrangements. The Initial Offering price multiplied by the number of shares that an employee was entitled to receive is recognized as an expense in administrative expenses, with a corresponding increase in contributed surplus over the vesting period, at the end of which, the employees become unconditionally entitled to the shares. The amount expensed is adjusted for forfeitures as required.

The Company has one share option plan for key employees, which forms part of their long-term incentive compensation plan. 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. Options vest between zero and four years.

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 long-term incentive plan ("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.

Pursuant to the LTIP plans, the awards may be settled in cash or shares at the option of Company. 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 existing and new LTIP awards occur through the issuance of equity shares. As a result, effective August 1, 2018, the LTIP liabilities were reclassified to shareholders equity and are no longer marked to market.

(Q) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the respective instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Fair value estimates are made at the consolidated statement of financial position date based on relevant market information and information about the financial instrument. All financial instruments are classified into either: fair value through profit or loss ("FVTPL") or amortized cost.

The Company has made the following classifications:

Cash	Amortized cost
Trade and other receivables	Amortized cost
Loans to related parties	Amortized cost
Other long-term assets	Amortized cost
Trade payables and other liabilities	Amortized cost
Borrowings	Amortized cost
Interest payable	Amortized cost
Loans from related parties	Amortized cost
Other long-term liabilities	Amortized cost
Foreign exchange forward contracts	FVTPL

2. Significant accounting policies *(continued)*

(R) Financial assets

The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at amortized cost

Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition. Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been decreased.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are offset against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. Loss allowances are based on the lifetime ECLs that result from all possible default events over the expected life of the trade receivable, using the simplified approach.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(S) Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized as the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities (including loans and borrowings and trade payables and other liabilities) are initially measured at fair value, net of transaction costs. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method.

2. Significant accounting policies *(continued)*

(S) Financial liabilities and equity instruments (continued)

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(T) Derivative financial instruments

The Company enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risks.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently re-measured at their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss.

(U) Fair value hierarchy and liquidity risk disclosure

Fair value measurements are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of short-term financial instruments approximates their carrying amounts due to the relatively short period to maturity. These include cash, trade and other receivables, as well as trade payables and other liabilities and provisions. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future.

(V) Accounting standards issued but not yet adopted

IFRS 16 Leases

In January 2016, the IASB issued a new Lease Standard, IFRS 16, Leases ("IFRS 16"). IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (the customer (‘lessee’) and the supplier (‘lessor’)). IFRS 16 completes the IASB’s project to improve the financial reporting of leases and replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. The standard is effective for annual periods beginning on or after January 1, 2019.

The guidance permits two methods of adoption: retrospectively to each prior reporting period restated (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). The Company will adopt the standard using the modified retrospective method. The Company has elected to set the right-of-use asset equal to the lease liability.

In preparation for adoption of the standard, the Company has completed the review of relevant contracts and has concluded there will be a right-of-use asset and a corresponding lease liability of approximately $85,000, recognized on the Company's statements of financial position upon the adoption of the standard. The Company has elected to not apply the requirements of IFRS 16 to short-term leases and leases for which the underlying asset is of low value. The Company will recognize the lease payments associated with these leases on a straight-line basis, over the lease term.

IFRIC 23 Uncertainty over income tax treatments

In June 2017, the IASB issued IFRIC 23 to clarify how the requirements of IAS 12 Income Taxes should be applied when there is uncertainty over income tax treatments. The interpretation specifically addresses:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How and entity determine taxable profit (or loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

2. **Significant accounting policies *(continued)***

(V) Accounting standards issued but not yet adopted (continued)

The interpretation is effective for annual periods beginning on or after January 1, 2019, with modified retrospective or retrospective application. The amendments and additions to IFRIC 23 do not have an impact on the Company's consolidated financial statements or financial results.

IAS 28 Investments in Associates and Joint Ventures

The IASB issued amendments to IAS 28 "Investments in Associates and Joint Ventures". The amendment is intended to clarify that an entity applies IFRS 9 "Financial Instruments" to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments are to be applied retrospectively for fiscal years beginning on or after January 1, 2019. The amendments and additions to IAS 28 do not have an impact on the Company's consolidated financial statements or financial results.

IFRS 9 Financial Instruments

The IASB issued amendments to IFRS 9 "Financial Instruments". The amendment addresses concerns about how IFRS 9 classifies prepayable financial assets and clarifies an aspect of accounting for financial liabilities following a modification. The amendments are to be applied retrospectively for fiscal years beginning on or after January 1, 2019. The amendments and additions to IFRS 9 do not have an impact on the Company's consolidated financial statements or financial results.

IAS 19 Employee Benefits

The IASB published amendments to IAS 19 “Employee Benefits”. The amendment harmonizes accounting practices to provide more relevant information for decision-making. The amendments are to be applied retrospectively to plan amendments, curtailments or settlements occurring on or after January 1, 2019. The amendments and additions to IAS 19 do not have an impact on the Company's consolidated financial statements or financial results.

IFRS 3 Business Combinations

The IASB published amendments to IFRS 3 “Business Combinations”. The amendment clarifies that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments are to be applied retrospectively for fiscal years beginning on or after January 1, 2019. The amendments and additions to IFRS 3 do not have an impact on the Company's consolidated financial statements or financial results.

IFRS 11 Joint Arrangements

The IASB published amendments to IFRS 11 “Joint Arrangements”. The amendment clarifies that when an entity obtains control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. The amendments are to be applied retrospectively for fiscal years beginning on or after January 1, 2019. The amendments and additions to IFRS 11 do not have an impact on the Company's consolidated financial statements or financial results.

IAS 12 Income Taxes

The IASB published amendments to IAS 12 “Income Taxes”. The amendment clarifies that the income tax consequences of dividends where transactions or events that generate distributable profits are recognized apply to all income tax consequences of dividends. The amendments are to be applied retrospectively for fiscal years beginning on or after January 1, 2019. The amendments and additions to IAS 12 do not have an impact on the Company's consolidated financial statements or financial results.

IAS 23 Borrowing Costs

The IASB published amendments to IAS 23 “Borrowing Costs”. The amendment clarifies that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. The amendments are to be applied retrospectively for fiscal years beginning on or after January 1, 2019. The amendments and additions to IAS 23 do not have an impact on the Company's consolidated financial statements or financial results.

3. Significant accounting judgments and estimates

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. As these estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, actual results may differ. The estimates and underlying assumptions are reviewed on an ongoing basis. Adjustments are recognized in the period in which the estimate is modified if the change affects only that period, or in the period the estimate is modified and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The Company has identified the following judgments, apart from estimates, which management has made in the process of applying the Company's accounting policies, and which have the most significant effect on the amounts recognized in the consolidated financial statements.

(A) Determination of CGUs

A CGU is defined as is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Determining the impact of impairment requires significant judgment in identifying which assets or groups of assets are CGUs of the Company.

(B) Functional currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates as of the dates the transactions occur. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Determining the appropriate functional currencies for entities in the Group requires analysis of various factors, including the currencies and country-specific factors that mainly influence sales prices, and the currencies that mainly influence labour, materials and other costs of providing goods or services.

Significant estimates and assumptions

The Company has identified the following accounting policies under which significant judgments, estimates and assumptions are made, where actual results may differ from these estimates under different assumptions and conditions, and which may materially affect the Company's financial results or financial position in future periods.

(A) Useful life of property, plant and equipment and intangible assets with finite useful lives

The Company employs significant estimates to determine useful lives of property, plant and equipment and intangible assets with finite useful lives, considering industry trends such as technological advancements, past experience, expected use and review of asset lives.

Components of an item of property, plant and equipment may have different useful lives. The Company makes estimates when determining depreciation methods, depreciation rates and useful lives, which require taking into account industry trends and company-specific factors. The Company reviews depreciation methods, useful lives and residual values annually or when circumstances change and adjusts, if necessary, its depreciation methods and assumptions prospectively.

(B) Impairment testing of goodwill and indefinite life intangible assets

Goodwill and indefinite life intangible assets are assessed for impairment at least annually, and whenever there is an indication of impairment. The Company determines the fair value of its CGU groupings and indefinite life intangible assets using discounted cash flow models corroborated by other valuation techniques.

The process of determining these fair values requires the Company to make estimates and assumptions of a long term nature regarding discount rates, projected revenues, royalty rates and margins derived from past experience, actual operating results and budgets. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies.

(C) Provision for inventories

Inventories are stated at the lower of cost and estimated net realizable value. The Company estimates net realizable value as the amount at which inventories are expected to be sold, taking into consideration fluctuations in retail prices

3. Significant accounting judgments and estimates (*continued)*

(C) Provision for inventories (continued)

due to seasonality less estimated costs required to sell. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices.

(D) Sales allowances

A sales allowance is established to reflect credits requested by customers relating to contractual discounts, negotiated discounts, customer audits, defective products and costs incurred by customers to sell the Company's products. The allowance is based on specific reserves based upon the Company's evaluation of the likelihood of the outcome of sales allowance claims.

(E) Income and other taxes

The calculation of current and deferred income taxes requires the Company to make estimates and assumptions and to exercise judgment regarding the carrying values of assets and liabilities which are subject to accounting estimates inherent in those balances, the interpretation of income tax legislation across various jurisdictions, expectations about future operating results, the timing of reversal of temporary differences and possible audits of income tax filings by tax authorities.

Changes or differences in underlying estimates or assumptions may result in changes to the current or deferred income tax balances on the consolidated statements of financial position, a charge or credit to income tax expense in the consolidated statement of earnings and may result in cash payments or receipts. All income, capital and commodity tax filings are subject to audits and reassessments. Changes in interpretations or judgments may result in a change in the Company's income, capital or commodity tax provisions in the future. The amount of such a change cannot be reliably estimated.

4. 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")

Year ended December 31	2018	2017
Revenue from sale of goods	1,509,617	1,465,532
Other revenue	121,920	85,792
Total revenue	**1,631,537**	**1,551,324**

Sales of toys and other children's products are seasonal. The majority of the Company's sales occur in the third and fourth quarters of the fiscal year.

5. Other (income) expenses

Year ended December 31	2018	2017
Impairment of non-current assets (see Note 11)	1,065	9,693
Other	(15,774)	(2,993)
Total other (income) expenses	**(14,709)**	**6,700**

During the second quarter of 2018, 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 year ended December 31, 2018.

6. Finance costs

Year ended December 31	2018	2017
Interest on bank loans	292	3,357
Bank fees	5,911	3,650
Accretion expense	2,287	2,559
Amortization of financing costs	908	879
Total finance costs	**9,398**	**10,445**

7. 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

Year ended December 31	2018	2017
Selling	88,971	106,471
Marketing	154,188	128,713
Distribution	61,173	53,637
Product development	27,567	23,365
Total selling, marketing, distribution and product development	**331,899**	**312,186**

Administrative expenses

Year ended December 31	Note	2018	2017
Employee benefits expense		179,888	169,955
Technology		11,181	8,382
Professional services		24,350	23,696
Property and operations		34,939	31,246
Depreciation of property, plant and equipment (excluding tooling)		14,725	10,229
Other	**9**	28,018	18,558
Total administrative expenses		**293,101**	**262,066**

Employee benefits expenses

Year ended December 31	2018	2017
Salaries, wages and bonuses	4,149	2,671
Other employee benefits	908	955
Total employee benefits expenses in cost of sales	**5,057**	**3,626**
Salaries, wages and bonuses	133,912	129,684
Share-based compensation	12,193	10,082
Termination benefits	7,258	1,680
Other employee benefits	26,525	28,509
Total employee benefits expenses in administrative expenses	**179,888**	**169,955**
Total employee benefits expenses	**184,945**	**173,581**

7. Expenses *(continued)*

Depreciation and amortization expense

Year ended December 31	2018	2017
Depreciation and amortization included in cost of sales	59,470	34,679
Depreciation and amortization included in administrative expenses	14,725	10,229
Total depreciation and amortization expense	**74,195**	**44,908**

8. Income taxes

Income tax recognized in net income:

Year ended December 31	2018	2017
Current tax expense	45,250	59,838
Deferred tax expense	8,272	(475)
Total income tax expense	**53,522**	**59,363**

Reconciliations of the income tax expense for the year at the statutory tax rate with the amounts presented in the consolidated statements of operations are as follows:

Year ended December 31	2018	2017
Net income before income taxes	208,426	220,429
Statutory tax rate (26.5%)	55,233	58,414
Adjustments		
Effect of expenses that are not deductible in determining taxable income	863	1,112
Effect of unused tax losses and tax offsets not recognized as deferred tax assets	765	480
Effect of previously unrecognized unused tax losses and deductible temporary differences now recognized as deferred tax assets	(687)	(510)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(4,103)	(6,782)
Effect of tax rate changes	—	2,528
Other	1,451	4,121
Total income tax expense	**53,522**	**59,363**

The tax rates used for the reconciliations above are the Canadian statutory tax rates of the parent payable by corporate entities in the Group, on taxable profits under tax laws in the respective jurisdictions in which the Company operates.

Current tax assets and liabilities

As at December 31. 2018, the Company had an income tax payable of $6,520 (2017 - $37,290).

Deferred tax balances

The following is the analysis of deferred tax assets and liabilities presented in the consolidated statements of financial position:

Year ended December 31	2018	2017
Deferred tax assets	21,004	21,945
Deferred tax liabilities	(15,492)	(8,075)
Net deferred tax asset	**5,512**	**13,870**

8. Income taxes *(continued)*

Recognized deferred tax assets and liabilities

As at December 31	2017	Recognized in net income	Foreign currency translation	2018
Deferred tax assets (liabilities) in relation to:				
Property, plant and equipment	614	(2,242)	(4)	(1,632)
Intangible assets	(4,508)	(3,430)	41	(7,897)
Provisions	8,172	1,449	(56)	9,565
Allowance for doubtful accounts	355	(132)	(2)	221
	4,633	(4,355)	(21)	257
Tax losses	7,354	(870)	(51)	6,433
Other	1,883	(3,047)	(14)	(1,178)
Total deferred tax	**13,870**	**(8,272)**	**(86)**	**5,512**

Unused tax losses

As at December 31, 2018, the Company had unused tax losses of $2,876 (2017 - $2,604). Unused tax losses of $281 will expire between 2019 and 2028, $1,257 will expire beyond 2028 and $1,338 may be carried forward indefinitely. There were no unrecognized deductible temporary differences for the year ended December 31, 2018 (2017 - nil).

Unrecognized taxable temporary differences associated with investments

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities were not recognized as at December 31, 2018, are $203,109 (2017 - $228,749).

9. Trade and other receivables

As at	December 31, 2018	December 31, 2017
Trade receivables	403,981	393,617
Provisions for sales allowances	(135,005)	(120,547)
Allowance for doubtful accounts	(2,140)	(2,789)
	266,836	**270,281**
Other receivables	114,918	99,438
Total net trade and other receivables	**381,754**	**369,719**

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

Other receivables include entertainment tax credits, royalties, commodity tax and other balances.

Trade receivables past due but not impaired

As at	December 31, 2018	December 31, 2017
60-90 days	11,269	9,697
91-120 days	6,032	7,229
> 120 days	45,889	35,771
Total trade receivables past due but not impaired	**63,190**	**52,697**

9. Trade and other receivables *(continued)*

Movement in the allowance for doubtful accounts

As at	December 31, 2018	December 31, 2017
Balance at the beginning of the year	2,789	2,684
Impairment losses recognized on receivables	20,419	8,060
Amounts written off during the year as uncollectible	(21,001)	(7,636)
Impairment losses reversed	(160)	(424)
Foreign currency translation	93	105
Balance as at December 31, 2018	**2,140**	**2,789**

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

During the year ended December 31, 2018, the Company recognized a net bad debt expense of $12,113 in administrative expenses (other), 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 global businesses.

Other receivables include entertainment tax credits, royalties, commodity tax and other balances.

10. Inventories

As at	December 31, 2018	December 31, 2017
Raw materials	11,025	10,931
Finished goods	99,106	109,398
Total inventories	**110,131**	**120,329**

The cost of inventories recognized as an expense in cost of sales during the year was $711,708 (2017 - $670,621).

During 2018, $1,928 of inventories were written down to net realizable value (2017 - $6,114). This charge is included within cost of sales in the consolidated statements of operations and comprehensive income.

11. Property, plant and equipment

	Moulds, dies and tools	Equipment	Land and building	Computer hardware	Total
Cost					
Balance at December 31, 2016	95,884	15,401	9,453	8,415	**129,153**
Additions	19,505	2,134	2,954	1,325	**25,918**
Asset retirements	(6,341)	(127)	(127)	(447)	**(7,042)**
Asset impairments	(660)	—	—	—	**(660)**
Foreign currency translation	3,916	706	590	470	**5,682**
Total at December 31, 2017	**112,304**	**18,114**	**12,870**	**9,763**	**153,051**
Additions	20,864	7,007	22,763	2,827	**53,461**
Asset retirements	(15,412)	—	—	—	**(15,412)**
Asset impairments	(1,065)	—	—	—	**(1,065)**
Assets recognized upon acquisition	—	12	—	11	**23**
Foreign currency translation	(2,726)	(679)	(1,866)	(1,270)	**(6,541)**
Total at December 31, 2018	**113,965**	**24,454**	**33,767**	**11,331**	**183,517**

	Moulds, dies and tools	Equipment	Land and building	Computer hardware	Total
Accumulated depreciation					
Balance at December 31, 2016	(77,019)	(11,228)	(6,410)	(7,500)	**(102,157)**
Depreciation	(17,445)	(1,555)	(1,080)	(655)	**(20,735)**
Asset retirements	6,341	127	127	447	**7,042**
Foreign currency translation	(2,631)	(609)	(430)	(553)	**(4,223)**
Total at December 31, 2017	**(90,754)**	**(13,265)**	**(7,793)**	**(8,261)**	**(120,073)**
Depreciation	(20,492)	(1,998)	(3,546)	(952)	**(26,988)**
Asset retirements	15,412	—	—	—	**15,412**
Foreign currency translation	2,374	25	921	832	**4,152**
Total at December 31, 2018	**(93,460)**	**(15,238)**	**(10,418)**	**(8,381)**	**(127,497)**
Net carrying amount					
Total at December 31, 2017	**21,550**	**4,849**	**5,077**	**1,502**	**32,978**
Total at December 31, 2018	**20,505**	**9,216**	**23,349**	**2,950**	**56,020**

For the year ended December 31, 2018, the Company recorded $1,065 (2017 - $660) of impairment losses in respect of 6 CGUs (2017 - 4). Impairment losses are recorded where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount was based on the asset's value in use.

12. Intangible assets

	Brands - indefinte	Trademarks, licenses & customer lists - definte	Content development	Computer software	Total
Cost					
Balance, December 31, 2016	79,973	34,504	60,943	20,763	**196,183**
Additions	—	—	30,109	1,155	**31,264**
Asset impairments	(5,734)	(3,045)	(859)	(5,288)	**(14,926)**
Assets recognized upon acquisition	6,300	4,400	—	—	**10,700**
Foreign currency translation	2,463	124	4,487	1,517	**8,591**
Total at 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)**
Total at December 31, 2018	**113,353**	**45,866**	**113,186**	**19,801**	**292,206**
Accumulated amortization					
Balance, December 31, 2016	—	(3,392)	(43,886)	(18,515)	**(65,793)**
Amortization	—	(3,180)	(19,173)	(1,820)	**(24,173)**
Asset impairments	—	1,074	129	4,690	**5,893**
Foreign currency translation	—	(320)	(978)	(1,276)	**(2,574)**
Total at 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**
Total at December 31, 2018	**—**	**(11,864)**	**(97,305)**	**(17,199)**	**(126,368)**
Net carrying amount					
Balance at December 31, 2017	**83,002**	**30,165**	**30,772**	**1,226**	**145,165**
Balance at December 31, 2018	**113,353**	**34,002**	**15,881**	**2,602**	**165,838**

Indefinite life intangibles have been allocated for impairment testing purposes to the following CGUs determined by brands:

- The ‘Wild Planet’ brand has been allocated to the ‘Spy Gear’ CGU;
- The ‘Meccano’ brand has been allocated to the ‘Meccano Brand’ CGU;
- The ‘Imagination Games’, ‘Head Bandz’, ‘Boom Boom Balloon’ ‘Catch a Bubble’, 'Bellz', 'EG Games', 'Cardinal', 'Marbles' and 'Perplexus' brands have been allocated to the ‘Games and Puzzles’ CGU;
- The 'Swimways' and 'Aerobie' brands have been allocated to the 'Swimways' CGU;
- The ‘Toca Boca’ and 'Sago Mini' brands have been allocated to the ‘Toca Boca’ CGU;
- The ‘Etch A Sketch’ brand has been allocated to the ‘Etch A Sketch’ CGU; and
- The 'Gund' brand has been allocated to the 'Gund' CGU.

Impairment losses

For the year ended December 31, 2018, the Company recorded impairment losses of nil (2017 - $9,033) in respect of no CGUs (2017 - 3). Impairment losses are recorded where the carrying amount of the CGU exceeds its recoverable amount. The recoverable amount was based on the CGU's value in use.

The recoverable amount of the CGUs is determined based on a value in use calculation which uses cash flow projections based on financial forecasts approved by management covering a five-year period and a pre-tax discount rate of 10.8% per annum (2017: 11.5% per annum).

12. Intangible assets *(continued)*

Cash flow projections during the forecast period are based on the same expected gross margins and raw materials price inflation throughout the forecast period. The cash flows beyond the five-year period have been extrapolated using a steady 1.0% (2017: 1.0%) per annum growth rate which is the projected long-term average growth rate. Management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGUs.

The carrying amount of indefinite life intangible assets, comprised of brands and trademarks, was allocated to CGUs as follows:

As at	December 31, 2018	December 31, 2017
Spy Gear	5,222	5,047
Meccano Brand	2,221	2,221
Games and Puzzles	24,193	27,313
Swimways	27,790	27,790
Toca Boca	13,000	13,000
Etch A Sketch	7,027	7,631
Gund	33,900	—
Total	**113,353**	**83,002**

13. Goodwill

As at	December 31, 2018	December 31, 2017
Balance, beginning of year	105,487	91,707
Additions during the year	19,629	13,123
Foreign currency translation	(929)	657
Total goodwill	**124,187**	**105,487**

Goodwill has been allocated for impairment testing purposes to the following CGUs:

- The ‘Feva’ business has been allocated to the ‘Spin Master UK’ CGU;
- The ‘Meccano’ business has been allocated to the ‘Meccano Brand’ CGU;
- The ‘X Concepts (Tech Deck)’ business has been allocated to the ‘Tech Deck’ CGU;
- The ‘Cardinal’, 'EG Games', 'Marbles' and 'Perplexus' businesses have been allocated to the ‘Games and Puzzles’ CGU;
- The ‘Etch A Sketch’ business has been allocated to the ‘Etch A Sketch’ CGU;
- The ‘Toca Boca’ business has been allocated to the ‘Toca Boca’ CGU;
- The 'Sago Mini' business has been allocated to the 'Sago Mini' CGU;
- The ‘Swimways’ and 'Aerobie' businesses have been allocated to the ‘Swimways’ CGU; and
- The 'Gund' business has been allocated to the 'Gund' CGU.

The carrying amount of goodwill was allocated to these CGUs as follows:

As at December 31	2018	2017
Spin Master UK	215	215
Meccano Brand	2,145	2,145
Tech Deck	1,206	1,206
Games and Puzzles	43,622	44,223
Etch A Sketch	3,820	4,148
Toca Boca	11,492	11,492
Swimways	42,058	42,058
Gund	19,629	—
Total goodwill	**124,187**	**105,487**

13. Goodwill *(continued)*

There have been no impairment losses recognized with respect to goodwill during 2018 (2017 - nil).

14. Trade payables and other liabilities

As at	December 31, 2018	December 31, 2017
Trade payables	160,570	155,519
Accrued liabilities	162,445	195,238
Total trade payables and other liabilities	**323,015**	**350,757**

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

15. Loans and borrowings

As at	December 31, 2018	December 31, 2017
Unsecured debt (at amortized cost)		
Loans from third parties (i)	—	44
	—	**44**
Secured debt (at amortized cost)		
Bank facilities (ii), (iii) and (iv)	—	532
	—	**576**
Less:		
Financing costs	—	45
Total loans and borrowings	**—**	**531**
Current	—	531
Non-current	—	—
Total loans and borrowings	**—**	**531**

(i) During the year, the Company repaid in full its fixed rate loan with Cap Calais related to Meccano operations in France. The weighted average effective interest rate on the loans is 0% per annum (2017 - 1.27% per annum).

(ii) During the year, the Company repaid in full its variable rate secured facility that was used to finance television production. As at December 31, 2018, the Company had nil outstanding (December 31, 2017 - $532).

On March 6, 2017 the Company entered into a Revolving Credit Facility (the "Production Facility") with a limit of $29,344 ($40,000 CAD) to finance television and film production. The interest rate on amounts drawn under the Production Facility bear interest at a variable rate referenced to the lending institution's Canadian dollar prime rate.

On July 10, 2018, the Company reduced the limit of the Production Facility to $14,672 ($20,000 CAD) to better align with the Company's borrowing needs under the facility. As at December 31, 2018, the balance of the Production facility was nil.

(iii) The Company has a five-year secured revolving credit facility (the "Facility") with total capital available of $510,000, which matures in December 2021. Advances under the Facility may be used for general corporate purposes including refinancing existing indebtedness, funding working capital requirements, permitted acquisitions and permitted distributions.

On July 10, 2018, the Company extended the Facility for an additional 18 months from December 31, 2021 to July 10, 2023.

15. Loans and borrowings *(continued)*

Available borrowing options under the Facility include:

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

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

- Total leverage ratio, defined as the ratio of (a) total debt at such time, to (b) EBITDA for the applicable twelve-month period, is calculated on a quarterly basis, of 3.00 to 1.00 or less, provided that, in the event the borrower used proceeds of a borrowing to complete a single permitted acquisition with aggregate consideration greater than $100 million during any two consecutive fiscal quarters falling within the twelve-month reporting period immediately following such permitted acquisition, the borrower must only maintain the total leverage ratio 3.50 to 1.00 or less; and
- Interest coverage ratio, calculated on a consolidated, rolling four quarter basis, at 3.00:1.00 or greater.

The Company was in compliance with the total leverage and interest coverage ratio covenants as at December 31, 2018 and December 31, 2017.

As at December 31, 2018, the Company had utilized $410 (December 31, 2017 - $545) of the Facility: nil (December 31, 2017 - nil) drawn in LIBOR Loans and $410 (December 31, 2017 - $545) drawn in letters of credit.

(iv) On December 19, 2018, the Company entered into an uncommitted Overdraft Facility Agreement (the "European Facility") for $17,167 (€15,000). The European Facility will be used to fund working capital requirements in Europe.

Changes in cash flows from financing activities for loans and borrowings are as follows:

As at	December 31, 2018	December 31, 2017
Balance, beginning of year	531	158,145
Proceeds from borrowings	45,000	25,791
Repayment of borrowings	(45,044)	(187,276)
Financing costs	—	45
Effect of foreign currency exchange rate changes on borrowings	(487)	3,826
Balance, end of year	**—**	**531**

16. Provisions and contingent liabilities

As at December 31	2018	2017
Defectives (i)	9,786	8,956
Supplier liabilities (iii)	6,290	5,826
Contingent consideration, acquisitions (iv)	14,900	16,351
Total provisions	**30,976**	**31,133**
Current	29,233	25,398
Non-current	1,743	5,735
Total provisions	**30,976**	**31,133**

16. Provisions and contingent liabilities *(continued)*

	Defectives (i)	Royalties (ii)	Supplier liabilities (iii)	Contingent consideration, acquisitions (iv)	Total
As at December 31, 2016	**10,943**	**29**	**5,202**	**22,305**	**38,479**
Provisions recognized	14,936	—	1,616	1,539	**18,091**
Accretion recognized	—	—	—	2,559	**2,559**
Reductions arising from payments	(16,923)	—	(992)	(6,773)	**(24,688)**
Revaluation of provisions	—	(29)	—	(3,279)	**(3,308)**
As at December 31, 2017	**8,956**	**—**	**5,826**	**16,351**	**31,133**
Provisions recognized	15,141	—	1,488	752	**17,381**
Accretion recognized	—	—	—	2,287	**2,287**
Reductions arising from payments	(14,311)	—	(1,024)	(4,281)	**(19,616)**
Revaluation of provisions	—	—	—	(209)	**(209)**
As at December 31, 2018	**9,786**	**—**	**6,290**	**14,900**	**30,976**

Provisions

(i) Defectives refer to when the end consumer returns faulty goods to the Company's customers. Customers without a fixed allowance for defectives are eligible for a credit for the cost of the product if returned as defective by the end consumer. The estimate of defectives is made based on the class and nature or the product and reduces the net sales figure on the statements of operations and comprehensive income.

(ii) During 2012, the Company acquired a number of brands in an asset acquisition. As part of the purchase price, the Company committed to pay royalties on sales of those brands until November 21, 2016. The future royalty obligation was estimated based on the Company's estimate of the related brands' future sales.

(iii) Supplier liabilities represent the estimated compensation to be paid to suppliers for lower than expected volumes purchased, resulting in the supplier having excess raw material and finished goods inventory. While payments are not legally required, the Company will regularly compensate suppliers to maintain supplier relationships. The supplier obligation is based on the Company's estimate of the cost of the supplier's excess raw material and finished goods inventory. The provision for supplier obligations is recorded in Cost of Sales on the consolidated statements of operations and comprehensive income.

(iv) Business combinations as described in Note 23 include an earn-out payable over the next five calendar years. The fair value of the total contingent consideration on December 31, 2018 was $14,900 (2017 - $16,351) and is based on the achievement of certain financial performance criteria. The accretion of the earn-out is recorded in other (income) expense in the consolidated statements of operations and comprehensive income.

The Company is involved in various routine legal proceedings incidental to the ordinary course of its business. The Company believes that the outcome of all pending legal proceedings in the aggregate is not 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.

17. Share capital

(a) Authorized as at December 31, 2018 and December 31, 2017

Unlimited number of multiple voting shares;

Unlimited number of subordinate voting shares; and

Unlimited number of preferred shares issuable in series.

17. Share capital *(continued)*

As at	December 31, 2018	December 31, 2017
Multiple voting shares	375,115	375,115
Subordinate voting shares	318,993	306,195
Total share capital issued and outstanding	**694,108**	**681,310**

	Number of shares	Number of shares
Multiple voting shares	70,697,887	73,549,812
Subordinate voting shares	31,091,601	28,126,094
Total number of common shares issued and outstanding	**101,789,488**	**101,675,906**

(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 December 31, 2018, 1,683,370 (December 31, 2017 - 2,298,482) subordinate voting shares were outstanding relating to the Participation Arrangements with a weighted average grant date fair value of $23,485 (December 31, 2017 - $31,582).

The weighted average remaining contractual life for Participation Arrangements outstanding as at December 31, 2018 is 18 months.

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.

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.

17. Share capital *(continued)*

RSUs and PSUs

Below is a summary of the activity related to RSUs and PSUs outstanding as at December 31, 2018 and December 31, 2017.

(in number of units)	December 31, 2018	December 31, 2017
Outstanding, beginning of year	807,217	597,343
Granted	315,511	294,119
Exercised	(371,325)	(67,550)
Forfeited	(43,313)	(16,695)
Outstanding, end of period	**708,090**	**807,217**

Included in the above table are grants of 229,588 PSUs to certain key employees during the twelve months ended December 31, 2018 (December 31, 2017 - 182,453).

Compensation expense of $11,255 (2017 - $20,086) relating to RSUs and PSUs is recorded in administrative expenses in the consolidated statement of operations and comprehensive income for the year ended December 31, 2018. Corresponding entries of $6,399 and $4,856 were recorded in accrued liabilities and contributed surplus, respectively.

Deferred Share Units ("DSUs")

Below is a summary of the activity related to DSUs outstanding as at December 31, 2018 and December 31, 2017.

(in number of units)	December 31, 2018	December 31, 2017
Outstanding, beginning of year	67,644	53,952
Granted	11,098	13,692
Exercised	(18,349)	—
Outstanding, end of year	**60,393**	**67,644**

Share based compensation (income)/expense of $(257) (2017 - $1,456) relating to DSUs is recorded in administrative expenses in the consolidated statement of operations and comprehensive income for the year ended December 31, 2018. 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. Options vest between zero and four years.

The following is a summary of the activity of the outstanding share purchase options:

	December 31, 2018		December 31, 2017	
	Number of options	Weighted average exercise price (CAD)	Number of options	Weighted average exercise price (CAD)
Outstanding, beginning of year	552,699	$28.43	346,148	$22.94
Granted	149,526	$51.97	206,551	$37.64
Exercised	(16,484)	$22.94	—	—
Outstanding, end of year	**685,741**	**$33.70**	**552,699**	**$28.43**

17. Share capital *(continued)*

The weighted average fair value of the share options granted during the years ended December 31, 2018 and 2017 were estimated at the grant date based on the Black-Scholes option pricing model using the following assumptions:

	Year ended December 31,	
	2018	**2017**
Exercise price per share	$51.97	$37.64
Dividend yield	—	—
Risk-free interest rate	2.1%	1.2%
Expected life	6.25 years	6.25 years
Expected volatility	31.7%	30.0%
Weighted average fair value of share options estimated at grant date	**$51.97**	**$37.64**

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

	Year ended December 31,	
	2018	**2017**
Expense arising from equity-settled Participation Arrangements transactions	5,622	8,689
Expense arising from options	1,715	1,393
Expense arising from equity-settled LTIP transactions	4,856	—
Total share based compensation expense	**12,193**	**10,082**

Compensation expense of $12,193 (2017 - $10,082) is recorded in administrative expenses in the consolidated statement of operations and comprehensive income for the year ended December 31, 2018. A corresponding amount was recorded in contributed surplus.

18. Earnings per share

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

	2018		**2017**	
	Weighted average number of shares	**Per common share amount ($)**	**Weighted average number of shares**	**Per common share amount ($)**
Basic	101,726,714	1.52	101,675,906	1.58
Diluted	102,252,581	1.51	101,846,680	1.58

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.

19. Changes in net working capital

Year ended December 31	2018	2017
Decrease (increase) in:		
Trade and other receivables	(74,991)	(136,594)
Inventories	15,016	(42,384)
Prepaid expenses	(12,666)	1,005
Advances on royalties	(7,355)	5,160
	(79,996)	**(172,813)**
(Decrease) increase in:		
Trade payables and other liabilities	44,924	186,668
Contract liabilities	(3,545)	4,972
Provisions	2,578	(2,595)
Other	16,972	550
	60,929	**189,595**
Total changes in net working capital	**(19,067)**	**16,782**

20. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

There were no related party transactions included in consolidated financial statements of the Company as at December 31, 2018 and December 31, 2017.

Compensation of key management personnel

The remuneration of directors and other key management personnel during the year was as follows:

Year ended December 31	2018	2017
Salaries, wages and bonuses	6,184	5,230
Other employee benefits	274	340
Share-based compensation	4,796	6,660
Total compensation of key management personnel	**11,254**	**12,230**

21. Operating leases

Operating leases relate primarily to the leasing of offices and related office equipment, and have been entered into with lease terms of between two and ten years in length. As at December 31, 2018, minimum lease payments amount to $13,504 (December 31, 2017 - $10,539).

22. Commitments for expenditures

As at December 31, 2018, the Company had minimum guarantees to licensors of approximately $23,354 (2017 - $47,331).

Non-cancellable operating lease commitments

As at December 31	2018	2017
No later than 1 year	12,009	6,832
Later than 1 year and no later than 5 years	48,191	40,859
Later than 5 years	9,258	16,231
Total lease commitments	**69,458**	**63,922**

23. Business combinations

Acquisition of Gund

On April 2, 2018, the Company acquired certain assets relating to the Gund line of business from Enesco LLC. 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. The acquisition will further diversify the Company's product line and open up opportunities for broader distribution, driving international growth.

Pursuant to the terms set forth in the agreement, the Company acquired control of the Gund brand through the acquisition of certain assets, for a total purchase consideration of $77,287. As part of the purchase consideration, the Company has agreed to pay royalties, calculated for each quarter of the three year royalty term, commencing June 30, 2018.

Included in the total purchase consideration of $77,287 is $752 related to the estimated fair value of the future royalty payments as at the acquisition date and $506 of working capital adjustments. The total purchase consideration has been allocated to the identifiable intangible assets based on their estimated fair values of $42,400 (related to the brand, customer relationships and non-competition agreement) and $19,629 of goodwill. The assets are included in the Activities, Games and Puzzles category, belonging to the North America segment effective April 2, 2018.

There were $506 in transaction related costs included in administrative expenses in the consolidated statement of operations and comprehensive income for the year ended December 31, 2018.

Assets acquired and liabilities recognized at the date of acquisition

	Fair Value as at April 2, 2018
Assets acquired	
Accounts receivable	6,802
Inventories	10,508
Prepaid expenses	176
Intangible assets	42,400
	59,886
Liabilities assumed	
Accounts payable	1,677
Accrued royalties	551
	2,228
Fair value of identifiable net assets acquired	**57,658**

The trade and other receivables acquired (which principally comprised trade receivables) in this transaction had gross contractual amounts totaling $6,802, equal to the fair value as at April 2, 2018. The total balance is expected to be collected.

Goodwill arising on acquisition

Consideration paid in cash	76,029
Working capital adjustments	506
Present value of future royalty payments	752
Total purchase consideration	77,287
Fair value of identifiable net assets acquired	(57,658)
Goodwill arising from transaction	**19,629**

Goodwill arose on the acquisition of Gund as the consideration paid effectively included amounts for the benefit of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets. As at the date of acquisition, $19,629 of goodwill is expected to be deductible for income tax purposes and is being amortized for tax purposes over 15 years.

23. Business combinations *(continued)*

Acquisition of Gund (continued)

Impact of acquisition on the results of the Company

Included in the Company's financial results for the year ended December 31, 2018 is $45,275 in revenues, attributable to the Gund acquisition. On a pro forma basis (unaudited), had this acquisition been completed on January 1, 2018, the Company's total revenue for the year would have amounted to $1,646,629. Management considers this pro forma estimates to represent an approximate measure of the performance of the combined Company on an annualized basis.

Acquisition of Fuggler

On January 1, 2018, pursuant to the terms set forth in the agreement, the Company acquired control of Fuggler through the acquisition of certain assets, for total purchase consideration of $1,000. The total purchase consideration has been allocated to the identifiable intangible asset (trade name) based on its estimated fair value of $1,000. The asset is included in the Boys Action and High-Tech Construction category, belonging to the North America segment effective January 1, 2018.

Prior year acquisitions

Acquisition of Perplexus

On November 30, 2017 the Company acquired certain assets related to the Perplexus product, co-invented in 2001 by Michael McGinnis and Klitsner Industrial Design Group of San Francisco and manufactured by Busy Life LLC.

Pursuant to the terms set forth in the agreement, the Company acquired control of Perplexus through the acquisition of certain assets, for a total purchase consideration of $9,861 less an escrow for possible adjustments. In addition, the Company has agreed to pay an earn-out of up to $2,000 per year based on Perplexus sales over a five year term, commencing January 1, 2018.

Included in the total purchase consideration of $9,861 is $815 related to the estimated fair value of the future earn-out payments as at the acquisition date. The total purchase consideration has been allocated to the identifiable intangible assets based on its estimated fair values of $2,000 (related to the trade name), and $7,861 of goodwill acquired. The assets are included in the games and puzzles product category, belonging to the North America segment effective November 30, 2017. The pro forma and actual results of operations for this acquisition have not been presented and are immaterial. The Company incurred $90 in transactions related costs which have all been included in administrative expenses in the consolidated statements of operations and comprehensive income for the year ended December 31, 2017.

Assets acquired at the date of acquisition

	Fair Value as at November 30, 2017
Assets acquired	
Intangible assets	2,000
Fair value of identifiable assets acquired	**2,000**

Goodwill arising on acquisition

	Total
Consideration transferred	9,861
Fair value of identifiable assets acquired	(2,000)
Goodwill arising from transaction	**7,861**

Goodwill relates to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets. As at the date of acquisition, $7,861 of goodwill is expected to be deductible for income tax purposes and is being amortized for tax purposes over 15 years.

23. Business combinations *(continued)*

Acquisition of Perplexus (continued)

Net cash outflow on acquisition

	Total
Consideration paid in cash	9,046
Net cash outflow	**9,046**

Acquisition of Aerobie Inc. ("Aerobie")

On July 28, 2017 the Company acquired certain assets of Aerobie, a privately held Company headquartered in Palo Alto, California. Aerobie is a manufacturer of outdoor flying disks and sports toys, which will complement the Company's existing products in the outdoor segment. Pursuant to the terms set forth in the agreement, the Company acquired control of Aerobie through the acquisition of certain assets, for total purchase consideration of $11,418, less an escrow for possible adjustments. Additionally, the Company has agreed to pay additional consideration in the form of a royalty, calculated in each quarterly period of a three year royalty term, commencing January 1, 2018.

Included in the total purchase consideration of $11,418 is $724 related to the estimated fair value of the future royalty payments as at the acquisition date. The total purchase consideration has been allocated to identifiable intangible assets based on their estimated fair values of $6,100 (related to brands and customer relationships), $4,606 of goodwill acquired and $712 of inventory acquired. The assets are included in the Outdoor product category, belonging to the North America segment effective July 28, 2017. The pro forma and actual results of operations for this acquisition have not been presented and are immaterial. The Company incurred $200 in transaction related costs which have been included in administrative expenses in the consolidated statement of operations and comprehensive income for the year ended December 31, 2017.

Assets acquired at the date of acquisition

	Fair Value as at July 28, 2017
Assets acquired	
Inventories	712
Intangible assets	6,100
Fair value of identifiable assets acquired	**6,812**

Goodwill arising on acquisition

	Total
Consideration transferred	11,418
Fair value of identifiable assets acquired	(6,812)
Goodwill arising from transaction	**4,606**

Goodwill relates to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets. As at the date of acquisition, $4,606 of goodwill is expected to be deductible for income tax purposes and is being amortized for tax purposes over 15 years.

Net cash outflow on acquisition

	Total
Consideration paid in cash	10,694
Net cash outflow	**10,694**

Acquisition of Marbles Corporation

On April 28, 2017, the Company acquired Marbles Holdings, LLC ("Marbles"), a privately held Company headquartered in Chicago, Illinois, pursuant to an asset purchase agreement. Marbles is a leader in brain-building and high-quality games, gifts and gadgets for all ages. The acquisition will complement the Company's existing products and builds

23. Business combinations *(continued)*

Acquisition of Marbles (continued)

upon the Company's substantial presence and will strengthen its position as a leader in the Games market. The Company obtained control of the Marbles business through the acquisition of brand-related patents, trademarks and inventory for the brands for total cash consideration of $4,675.

The acquired assets were sold through a bankruptcy court approved sale process and include all of Marbles' proprietary and licensed games, warehoused inventory and the Marbles name and website. Spin Master submitted a bid for the assets and subsequently emerged as the successful bidder at the conclusion of the open auction sale process on

April 24, 2017. The court overseeing the Marbles bankruptcy case issued an order approving the sale to Spin Master on April 26, 2017. The Company closed the acquisition of Marbles on April 28, 2017.

The total purchase consideration has been allocated to identifiable intangible assets based on their estimated fair values of $2,600 (related to brands, trademarks and customer relationships). Additionally $1,419 of net tangible assets were acquired. The assets are included in the Games & Puzzles product category, belonging to the North America segment effective April 28, 2017. The pro forma and actual results of operations for this acquisition have not been presented and are immaterial. The Company incurred $1,218 in transaction related costs, $262 of which have been included in administrative expenses and $956 of which have been included in other expenses in the consolidated statement of operations and comprehensive income for the year ended December 31, 2017.

Assets acquired and liabilities recognized at the date of acquisition

	Fair Value as at April 28, 2017
Assets acquired	
Inventories	983
Prepaid expenses	450
Intangible assets	2,600
	4,033
Liabilities assumed	
Royalties payable	14
	14
Fair value of identifiable net assets acquired	**4,019**

Goodwill arising on acquisition

	Total
Consideration transferred	4,675
Fair value of identifiable net assets acquired	(4,019)
Goodwill arising from transaction	**656**

Goodwill relates to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets. As at the date of acquisition, $656 of goodwill is expected to be deductible for income tax purposes and is being amortized for tax purposes at 5% declining balance.

Net cash outflow on acquisition

	Total
Consideration paid in cash	4,675
Net cash outflow	**4,675**

24. Financial instruments and risk management

Capital management

Management includes the following items in its definition of capital:

As at	2018	2017
Capital components		
Short-term borrowings	—	531
Non-current borrowings	—	—
Total debt	**—**	**531**
Share capital	694,108	681,310
Contributed surplus	40,905	20,323
Accumulated deficit	(92,436)	(247,340)
Total capital	**642,577**	**454,824**

The Company makes adjustments to its capital based on the funds available to the Company, in order to support the operations of the business and in order to ensure that the subsidiaries in the Company will be able to continue as going concerns, while maximizing the return to stakeholders through the optimization of the debt and equity balances.

The Company manages its capital structure, and makes adjustments to it in light of changes in economic conditions. In order to maintain or modify the capital structure, the Company may arrange new debt with existing or new lenders, or obtain additional financing through other means.

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2018.

The Company is subject to capital requirements under the credit facility agreement, as described in Note 15. As at December 31, 2018, the Company was in compliance with all financial covenants.

Financial risk management objectives

Management's objective is to protect the Company and its subsidiaries on a consolidated basis against material economic exposures and the variability of results from various financial risks that include foreign currency risk, interest rate risk, credit risk and liquidity risk.

Market risk

Foreign currency risk

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

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

As at December 31, 2018, the Company is committed under outstanding foreign exchange contracts to purchase USD, representing total purchase commitments of approximately $39,259 (2017 - $48,060).

Foreign currency risk - sensitivity analysis

The Company is consistently exposed to the Canadian dollar, the Peso, the British Pound and the Euro. A sensitivity rate of 5% is used when reporting foreign currency risk internally to key management personnel, and represents management's assessment of the reasonably possible change in foreign exchange rates to which the Company is exposed.

24. Financial instruments and risk management *(continued)*

For the year ended December 31, 2018, a 5% strengthening of the above currencies against the USD would have resulted in an increase to net assets of $785 (2017 - a decrease to net assets of $3,508).

The sensitivity analysis includes only outstanding foreign currency denominated monetary assets and liabilities, and adjusts their translation as at the end of the reporting period for a 5% change in foreign currency rates.

Interest rate risk - management

Interest rate risk is the risk that the Company’s financial assets and liabilities will increase or decrease in value due to a change in interest rates. The Company is exposed to interest rate risk as its loan facility bears interest at a variable rate.

Interest rate risk - sensitivity analysis

The Company is exposed to interest rate risk on financial instruments. A sensitivity rate of 50 basis points is used when reporting interest rate risk internally to key management personnel, and represents management’s assessment of the reasonably possible change in interest rates to which the Company is exposed.

For the year ended December 31, 2018, with all other variables held constant, a 50 basis point increase in interest rates would have resulted in no impact to net income for the year (2017 - no impact to net income).

Credit risk

As the Company usually grants credit to customers on an unsecured basis, credit risk arises from the possibility that customers may experience financial difficulty and may be unable to fulfill their financial obligations.

This risk is managed through the establishment of credit limits and payment terms based on an evaluation of the customer’s financial performance, ability to generate cash, financing availability and liquidity status. These factors are reviewed at least annually, with more frequent reviews performed as necessary.

In addition, the Company uses a variety of financial arrangements to ensure collectability of trade receivables, including requiring letters of credit, cash in advance of shipment and through the purchase of insurance on material customer receivables.

As at December 31, 2018, approximately 45% (2017 - 33%) of the Company’s trade receivables are from three major retail customers which represent approximately 48% of gross product sales for the year ended December 31, 2018 (2017 - 43%). The Company's credit insurance provides coverage for all of these customers.

The Company mitigates credit risk on its cash balance by ensuring all deposits are with financial institutions with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

The following details the Company’s remaining contractual maturities for its financial liabilities with contractual repayment periods. The tables reflect the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay, including both interest and principal.

To the extent that interest rates are floating, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Company may be required to pay.

24. Financial instruments and risk management *(continued)*

The Company's contractual maturities are as follows:

	Less than 1 year	1 year to 5 years	Greater than 5 years	2018 Total
Trade payables and other liabilities	323,015	—	—	323,015
Provisions	29,233	1,743	—	30,976
Total as at December 31	**352,248**	**1,743**	**—**	**353,991**

	Less than 1 year	1 year to 5 years	Greater than 5 years	2017 Total
Trade payables and other liabilities	350,757	—	—	350,757
Loan and borrowings	531	—	—	531
Provisions	25,398	5,735	—	31,133
Total as at December 31	**376,686**	**5,735**	**—**	**382,421**

Financing facilities

As at December 31,	2018	2017
Bank loan facilities		
Amount used	—	531
Amount unused	541,839	510,373
Total as at December 31	**541,839**	**510,904**

Fair value measurements

With the exception of foreign exchange forward contracts, the Company does not currently record any financial assets or liabilities at fair value in the financial statements and their carrying amounts approximate their fair values.

The fair value of foreign exchange forward contracts represented a liability as at December 31, 2018 of $1,017 and is recorded in other liabilities (2017 - asset of $971 and is recorded in other assets). These fair values are categorized within Level 2 of the fair value hierarchy. The fair value of foreign exchange contracts is estimated based on forward exchange rates observable at the end of the reporting period and contract forward rates.

25. 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.

25. Segment information *(continued)*

Segment revenue and results

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

Year ended December 31,	2018	2017
Revenue by segment		
North America	1,085,178	1,082,709
Europe	376,277	368,009
Rest of world	246,508	206,310
Gross product sales	**1,707,963**	**1,657,028**
Sales allowances	198,346	191,496
Total net sales	**1,509,617**	**1,465,532**
Other revenue	121,920	85,792
Total revenue	**1,631,537**	**1,551,324**
Segment income		
North America	175,558	189,973
Europe	26,931	19,647
Rest of world	11,853	19,806
Total segment income	**214,342**	**229,426**
Corporate and other	(5,916)	(8,997)
Income before income tax expense	**208,426**	**220,429**

Revenues for North America include revenues attributable to Canada of $180,581 (2017 - $142,707) for the period ended December 31, 2018.

Revenue reported by segment above represents revenue generated from external customers. There were no inter-segment sales in the current year (2017 - $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 December 31	2018	2017
Assets		
North America	720,883	489,390
Europe	143,229	99,819
Rest of world	77,130	138,087
Total segment assets	**941,242**	**727,296**
Corporate and other	104,155	211,089
Total consolidated assets	**1,045,397**	**938,385**

25. Segment information *(continued)*

A breakdown of non-current assets by location are detailed as follows:

As at December 31	2018	2017
Non-current assets		
North America	295,521	204,136
Europe	13,253	12,741
Rest of world	7,567	9,665
Total segment non-current assets	**316,341**	**226,542**
Corporate and other	60,799	84,033
Total consolidated non-current assets	**377,140**	**310,575**

Non-current assets for North America include non-current assets attributable to Canada of $91,037 as at December 31, 2018 (December 31, 2017 - $82,862).

Segment liabilities

As at December 31	2018	2017
Liabilities		
North America	271,371	295,313
Europe	48,107	60,619
Rest of world	40,710	55,335
Total segment liabilities	**360,188**	**411,267**
Corporate and other	22,742	27,036
Total consolidated liabilities	**382,930**	**438,303**

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 segment

Year ended December 31	2018	2017
Depreciation and amortization by segment		
North America	62,468	33,681
Europe	6,298	5,207
Rest of world	3,278	3,216
Total segment depreciation and amortization	**72,044**	**42,104**
Corporate and other	2,151	2,804
Total consolidated depreciation and amortization	**74,195**	**44,908**

25. Segment information *(continued)*

In addition to the depreciation and amortization reported above, impairment losses of $1,065 (2017 - $9,693) were recognized in respect of property, plant and equipment and intangible assets, for the twelve months ended December 31, 2018. These impairment losses were attributable to the following reportable segments:

Year ended December 31	2018	2017
Impairment losses		
North America	—	9,033
Rest of world	1,065	660
Total impairment losses	**1,065**	**9,693**

Revenue from major product categories

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

Year ended December 31	2018	2017
Revenue from product categories		
Activities, games & puzzles, and plush	455,530	365,378
Remote control and interactive characters	505,357	593,355
Boys action and high-tech construction	133,085	112,102
Pre-school and girls	517,490	493,069
Outdoor	96,501	93,124
Gross product sales	**1,707,963**	**1,657,028**
Sales allowances	198,346	191,496
Total net sales	**1,509,617**	**1,465,532**
Other revenue	121,920	85,792
Total revenue	**1,631,537**	**1,551,324**

Major customers

Sales to the Company's three largest customers accounted for 47.9% (2017 - 42.9%) of consolidated gross product sales for the year ended December 31, 2018. The top three customers contributed 10% or more to gross product sales. No other single customer contributed 10% or more to gross product sales of the Company for 2018.

Year ended December 31	2018	2017
Gross product sales		
Customer 1	409,462	363,674
Customer 2	246,407	230,696
Customer 3	161,452	116,803
Total	**817,321**	**711,173**