

Spin Master Corp.

Condensed consolidated interim financial statements (unaudited)

For the three months ended March 31, 2019 and March 31, 2018

Spin Master Corp.

Condensed consolidated interim financial statements for the three months ended March 31, 2019 and March 31, 2018

Table of contents

Condensed consolidated interim statements of financial position	1
Condensed consolidated interim statements of operations and comprehensive income	2
Condensed consolidated interim statements of changes in equity	3
Condensed consolidated interim statements of cash flows	4
Notes to the condensed consolidated interim financial statements	5 - 18

Spin Master Corp.

Condensed consolidated interim statements of financial position

(Unaudited, in thousands of United States dollars)	Notes	March 31, 2019	December 31, 2018
Assets			
Current assets			
Cash		113,842	143,518
Trade and other receivables	7	273,716	381,754
Inventories	8	112,022	110,131
Prepaid expenses		30,455	32,854
Income tax receivable		31,419	—
		561,454	668,257
Non-current assets			
Advances on royalties		9,180	10,091
Property, plant and equipment	9	57,262	56,020
Intangible assets	10	169,163	165,838
Goodwill	11	124,909	124,187
Deferred tax assets		20,833	21,004
Right-of-use assets	2	81,077	—
		462,424	377,140
Total assets		1,023,878	1,045,397
Liabilities			
Current liabilities			
Trade payables and other liabilities	12	220,347	323,015
Contract liabilities		9,508	6,927
Provisions		24,653	29,233
Income tax payable		—	6,520
Lease liabilities	2	12,904	—
		267,412	365,695
Non-current liabilities			
Provisions		1,682	1,743
Deferred tax liabilities		29,419	15,492
Lease liabilities		68,375	—
		99,476	17,235
Total liabilities		366,888	382,930
Shareholders' equity			
Share capital	14	694,108	694,108
Accumulated deficit		(113,338)	(92,436)
Contributed surplus		45,262	40,905
Accumulated other comprehensive income		30,958	19,890
Total shareholders' equity		656,990	662,467
Total liabilities and shareholders' equity		1,023,878	1,045,397

Approved by the Board of Directors on May 8, 2019.

The accompanying notes on pages 5 to 18 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of operations and comprehensive (loss) income

For the three months ended March 31

(Unaudited, in thousands of United States dollars, except share data)

	Notes	2019	2018
Revenue	3	238,995	285,671
Cost of sales		131,301	136,839
Gross profit		107,694	148,832
Expenses			
Selling, marketing, distribution and product development	5	60,970	58,424
Administrative expenses	5	66,199	76,951
Other (income) expenses		(53)	27
Foreign exchange loss		6,379	3
Finance costs	4	2,667	1,600
(Loss) income before income tax expense		(28,468)	11,827
Income tax (recovery) expense	6	(7,566)	3,128
Net (loss) income		(20,902)	8,699
Items that may be subsequently reclassified to net income or (loss)			
Currency translation adjustment gain (loss)		11,068	(661)
Other comprehensive gain (loss)		11,068	(661)
Total comprehensive (loss) income		(9,834)	8,038
(Loss) earnings per share			
Basic and diluted	15	(0.21)	0.09
Weighted average number of common shares outstanding			
Basic	15	101,789,488	101,676,120
Diluted	15	102,667,807	101,934,826

The accompanying notes on pages 5 to 18 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of changes in equity

(Unaudited, in thousands of United States dollars)	Note	Share capital	Accumulated deficit	Contributed surplus	Accumulated other comprehensive income	Total
Balance at January 1, 2018		681,310	(247,340)	20,323	45,789	500,082
Net income		—	8,699	—	—	8,699
Currency translation adjustment		—	—	—	(661)	(661)
Share-based compensation	14	—	—	2,027	—	2,027
Exercise of share options		88	—	(20)	—	68
Balance at March 31, 2018		681,398	(238,641)	22,330	45,128	510,215
Balance at January 1, 2019		694,108	(92,436)	40,905	19,890	662,467
Net loss		—	(20,902)	—	—	(20,902)
Currency translation adjustment		—	—	—	11,068	11,068
Share-based compensation	14	—	—	4,357	—	4,357
Balance at March 31, 2019		694,108	(113,338)	45,262	30,958	656,990

The accompanying notes on pages 5 to 18 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of cash flows

For the three months ended March 31

(Unaudited, in thousands of United States dollars)

	Notes	2019	2018
Operating activities			
Net (loss) income		(20,902)	8,699
Adjustments to reconcile net income to cash provided by operating activities			
Income tax (recovery) expense	6	(7,566)	3,128
Interest (income) expense	4	(450)	66
Depreciation and amortization	5	21,422	11,438
Accretion expense	4	1,617	596
Amortization of financing costs	4	234	219
Impairment of property, plant and equipment		—	412
Share-based compensation expense	14	4,357	2,027
Changes in net working capital	16	12,078	13,336
Changes in contingent consideration liabilities		(61)	(1,215)
Income taxes paid		(16,664)	(27,607)
Interest paid		(241)	—
Cash (used in) provided by operating activities		(6,176)	11,099
Investing activities			
Property, plant and equipment	9	(7,613)	(17,019)
Intangible assets	10	(13,957)	(9,078)
Business acquisition, net of cash acquired		—	(1,000)
Cash used in investing activities		(21,570)	(27,097)
Financing activities			
Proceeds from borrowings		—	30,000
Repayment of borrowings		—	(19)
Proceeds from exercise of share options		—	68
Payment of lease liabilities		(3,227)	—
Cash (used in) provided by financing activities		(3,227)	30,049
Effect of foreign currency exchange rate changes on cash		1,297	1,597
Net (decrease) increase in cash during the period		(29,676)	15,648
Cash, beginning of period		143,518	117,262
Cash, end of period		113,842	132,910

The accompanying notes on pages 5 to 18 are an integral part of these condensed consolidated interim financial statements.

1. Description of business

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

The Company has three reportable operating segments: North America, Europe and Rest of World (see Note 19). The North American segment is comprised of the United States and Canada. The European segment is comprised of the United Kingdom, France, Italy, the Netherlands, Germany, Austria, Switzerland, Belgium, Luxembourg, Slovakia, Hungary, Romania, Czech Republic, Poland, Russia and Greece. The Rest of World segment is primarily comprised of Hong Kong, China, Vietnam, India, Australia and Mexico, as well as all other areas of the world serviced by the Company's distribution network.

2. Summary of significant accounting policies

(A) Statement of compliance

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

These condensed consolidated interim financial statements and accompanying notes were approved and authorized for issuance by the Board of Directors of the Company on May 8, 2019.

(B) Basis of preparation

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

(C) Functional and presentation currency

These interim consolidated financial statements are presented in United States dollars ("USD"), which is the Company's presentation currency; however, the functional currency of the Company is the Canadian dollar. The functional currency of the operating subsidiaries is typically the economic currency in the associated jurisdiction. At March 31, 2019 and 2018, the functional currencies of the Company's subsidiaries included the Canadian dollar, the Euro, the Great Britain pound, the Hong Kong dollar, the Mexican peso, the Chinese yuan, the Swedish krona and the Australian dollar. All financial information presented in USD has been rounded to the nearest thousand, except per share amounts and where otherwise indicated.

(D) Application of new and revised IFRSs

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

2. Summary of significant accounting policies (continued)

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

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

IFRS 16 Leases

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

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

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

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

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

On transition to IFRS 16, the Company recognized right-of-use assets and corresponding lease liabilities of \$83,419 on January 1, 2019. The Company has recognized depreciation expense of \$2,342 in administrative expenses and accretion expense of \$1,086 in finance costs in the condensed consolidated interim statements of operations and comprehensive (loss) income for the three months ended March 31, 2019.

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

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

Spin Master Corp.

Condensed consolidated interim financial statements for the three months ended March 31, 2019 and March 31, 2018

3. Revenue

The Company earns revenue from the following primary sources:

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

Three Months Ended March 31	2019	2018
Revenue from sale of goods	210,077	255,832
Other revenue	28,918	29,839
Total revenue	238,995	285,671

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. Generally, the first and second quarters are the periods with the lowest shipments and revenues in the toy industry and therefore are the least profitable quarters for the Company.

4. Finance costs

Three Months Ended March 31	2019	2018
Interest (income) expense on bank loans	(450)	66
Bank fees	1,266	719
Accretion expense	1,617	596
Amortization of financing costs	234	219
Total finance costs	2,667	1,600

5. Expenses

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

Selling, marketing, distribution and product development

Three Months Ended March 31	2019	2018
Selling	15,964	15,688
Marketing	21,855	25,563
Distribution	16,875	11,494
Product development	6,276	5,679
Total selling, marketing, distribution and product development	60,970	58,424

Administrative expenses

Three Months Ended March 31	Note	2019	2018
Employee benefits expense		42,246	39,641
Technology		3,035	2,055
Professional services		5,015	6,498
Property and operations		5,378	7,621
Depreciation and amortization		6,866	2,337
Other	7	3,659	18,799
Total administrative expenses		66,199	76,951

Spin Master Corp.

Condensed consolidated interim financial statements for the three months ended March 31, 2019 and March 31, 2018

5. Expenses (continued)

Employee benefits expenses

Three Months Ended March 31	2019	2018
Salaries, wages and bonuses	1,162	920
Other employee benefits	204	216
Total employee benefits expenses in cost of sales	1,366	1,136
Salaries, wages and bonuses	31,460	30,995
Share-based compensation	4,357	2,027
Termination benefits	673	1,215
Other employee benefits	5,756	5,404
Total employee benefits expenses in administrative expenses	42,246	39,641
Total employee benefits expenses	43,612	40,777

Depreciation and amortization expense

Three Months Ended March 31	2019	2018
Depreciation and amortization included in cost of sales	14,556	9,101
Depreciation and amortization included in administrative expenses	6,866	2,337
Total depreciation and amortization expense	21,422	11,438

6. Income tax

Income tax recognized in net (loss) income:

Three Months Ended March 31	2019	2018
Current tax (recovery) expense	(7,187)	3,108
Deferred tax (recovery) expense	(379)	20
Total income tax (recovery) expense	(7,566)	3,128

7. Trade and other receivables

As at	March 31, 2019	December 31, 2018
Trade receivables	313,520	403,981
Provisions for sales allowances	(125,785)	(135,005)
Allowance for doubtful accounts	(3,077)	(2,140)
	184,658	266,836
Other receivables	89,058	114,918
Total trade and other receivables	273,716	381,754

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

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

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

Spin Master Corp.

Condensed consolidated interim financial statements for the three months ended March 31, 2019 and March 31, 2018

8. Inventories

As at	March 31, 2019	December 31, 2018
Raw materials	12,005	11,025
Finished goods	100,017	99,106
Total inventories	112,022	110,131

The cost of inventories recognized as an expense in cost of sales for the three months ended March 31, 2019 were \$109,024 (March 31, 2018 - \$120,909).

9. Property, plant and equipment

	Moulds, dies and tools	Equipment	Land and building	Computer hardware	Total
Cost					
Balance 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
Additions	3,327	1,173	2,484	629	7,613
Asset retirements	(1,931)	(314)	—	—	(2,245)
Foreign currency translation	1,661	173	479	125	2,438
Total at March 31, 2019	117,022	25,486	36,730	12,085	191,323

	Moulds, dies and tools	Equipment	Land and building	Computer hardware	Total
Accumulated depreciation					
Balance 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)
Depreciation	(4,952)	(697)	(1,296)	(342)	(7,287)
Asset retirements	1,931	314	—	—	2,245
Foreign currency translation	(1,231)	(274)	(81)	64	(1,522)
Total at March 31, 2019	(97,712)	(15,895)	(11,795)	(8,659)	(134,061)

Net carrying amount

Total at December 31, 2018	20,505	9,216	23,349	2,950	56,020
Total at March 31, 2019	19,310	9,591	24,935	3,426	57,262

Spin Master Corp.

Condensed consolidated interim financial statements for the three months ended March 31, 2019 and March 31, 2018

10. Intangible assets

	Brands - indefinite	Trademarks, licenses & customer lists - definite	Content development	Computer software	Total
Cost					
Balance, December 31, 2017	83,002	35,983	94,680	18,147	231,812
Additions	—	—	25,520	3,527	29,047
Assets recognized upon acquisition	33,900	9,500	—	—	43,400
Foreign currency translation	(3,549)	383	(7,014)	(1,873)	(12,053)
Total at December 31, 2018	113,353	45,866	113,186	19,801	292,206
Additions	—	—	13,050	907	13,957
Foreign currency translation	655	50	1,819	251	2,775
Total at March 31, 2019	114,008	45,916	128,055	20,959	308,938
Accumulated amortization					
Balance, December 31, 2017	—	(5,818)	(63,908)	(16,921)	(86,647)
Amortization	—	(6,315)	(38,880)	(2,012)	(47,207)
Foreign currency translation	—	269	5,483	1,734	7,486
Total at December 31, 2018	—	(11,864)	(97,305)	(17,199)	(126,368)
Amortization	—	(1,676)	(9,562)	(555)	(11,793)
Foreign currency translation	—	(47)	(1,406)	(161)	(1,614)
Total at March 31, 2019	—	(13,587)	(108,273)	(17,915)	(139,775)
Net carrying amount					
Balance at December 31, 2018	113,353	34,002	15,881	2,602	165,838
Balance at March 31, 2019	114,008	32,329	19,782	3,044	169,163

11. Goodwill

As at	March 31, 2019	December 31, 2018
Beginning of period	124,187	105,487
Additions during the period	—	19,629
Foreign currency translation	722	(929)
End of period	124,909	124,187

There have been no impairment losses recognized with respect to goodwill for the three months ended March 31, 2019 (March 31, 2018 - nil).

12. Trade payables and other liabilities

As at	March 31, 2019	December 31, 2018
Trade payables	98,485	160,570
Accrued liabilities	121,862	162,445
Total trade payables and other liabilities	220,347	323,015

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

Spin Master Corp.

Condensed consolidated interim financial statements for the three months ended March 31, 2019 and March 31, 2018

13. Provisions and contingent liabilities

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

14. Share capital

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

Unlimited number of multiple voting shares;

Unlimited number of subordinate voting shares; and

Unlimited number of preferred shares issuable in series.

As at	March 31, 2019	December 31, 2018
Multiple voting shares	375,115	375,115
Subordinate voting shares	318,993	318,993
Total share capital	694,108	694,108

	Number of shares	Number of shares
Multiple voting shares	70,697,887	70,697,887
Subordinate voting shares	31,100,845	31,091,601
Total number of common shares issued and outstanding	101,798,732	101,789,488

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

The weighted average remaining contractual life for Participation Arrangements outstanding as at March 31, 2019 is 15 months.

Spin Master Corp.

Condensed consolidated interim financial statements for the three months ended March 31, 2019 and March 31, 2018

14. Share capital (continued)

Long-Term Incentive Plan ("LTIP")

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

RSUs and PSUs

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

(in number of units)	March 31, 2019	December 31, 2018
Outstanding, beginning of period	708,090	807,217
Granted	395,518	315,511
Exercised	(9,244)	(371,325)
Forfeited	(1,247)	(43,313)
Outstanding, end of period	1,093,117	708,090

Included in the above table are grants of 272,478 PSUs to certain key employees during the three months ended March 31, 2019 (December 31, 2018 - 229,588).

Compensation expense of \$2,881 (2018 - \$169) relating to RSUs and PSUs is recorded in administrative expenses in the condensed consolidated interim statement of operations and comprehensive (loss) income for the three months ended March 31, 2019. Corresponding entries were recorded in contributed surplus and in accrued liabilities in the prior year. Prior to August 1, 2018, the Company settled LTIP awards in cash, resulting in their recognition as liabilities, which were marked to market each period. Effective August 1, 2018, settlements of LTIP awards occur through the issuance of shares. As a result, the LTIP liabilities were reclassified to shareholders equity and are no longer marked to market.

Deferred Share Units ("DSUs")

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

(in number of units)	March 31, 2019	December 31, 2018
Outstanding, beginning of period	60,393	67,644
Granted	5,458	11,098
Exercised	—	(18,349)
Outstanding, end of period	65,851	60,393

Share based compensation expense of \$108 (2018 - \$178) relating to DSUs is recorded in administrative expenses in the condensed consolidated interim statement of operations and comprehensive (loss) income for the three months ended March 31, 2019. A corresponding amount was recorded in accrued liabilities.

Share Purchase Options ("Options")

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

Spin Master Corp.

Condensed consolidated interim financial statements for the three months ended March 31, 2019 and March 31, 2018

14. Share capital (continued)

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

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

The weighted average fair value of the share options granted during the three months ended March 31, 2019 and 2018 were estimated at the grant date based on the Black-Scholes option pricing model using the following assumptions:

	Three Months Ended March 31,	
	2019	2018
Exercise price per share	\$37.96	\$52.20
Dividend yield	—	—
Risk-free interest rate	1.5%	2.1%
Expected life	6.25 years	6.25 years
Expected volatility	31.9%	31.7%
Weighted average fair value of share options at grant date	\$37.96	\$52.20

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

	Three Months Ended March 31,	
	2019	2018
Expense arising from equity-settled Participation Arrangements transactions	1,018	1,664
Expense arising from options	458	363
Expense arising from equity-settled RSUs and PSUs	2,881	—
Total share based compensation expense	4,357	2,027

Share based compensation expense of \$4,357 (2018 - \$2,027) is recorded in administrative expenses in the condensed consolidated interim statement of operations and comprehensive (loss) income for the three months ended March 31, 2019. A corresponding amount was recorded in contributed surplus.

15. Earnings per share

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

	2019		2018	
	Weighted average number of shares	Per common share amount (\$)	Weighted average number of shares	Per common share amount (\$)
Basic	101,789,488	(0.21)	101,676,120	0.09
Diluted	102,667,807	(0.21)	101,934,826	0.09

Spin Master Corp.

Condensed consolidated interim financial statements for the three months ended March 31, 2019 and March 31, 2018

15. Earnings per share (continued)

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.

16. Changes in net working capital

Three Months Ended March 31	2019	2018
Decrease (increase) in:		
Trade and other receivables	120,770	144,500
Inventories	(1,841)	6,584
Prepaid expenses	2,522	(3,511)
Advances on royalties	1,492	5,404
	122,943	152,977
(Decrease) increase in:		
Trade payables and other liabilities	(108,868)	(137,258)
Contract liabilities	2,582	736
Provisions	(4,579)	(990)
Other	—	(2,129)
	(110,865)	(139,641)
Total changes in net working capital	12,078	13,336

17. Commitments for expenditures

As at March 31, 2019, the Company had minimum guarantees to licensors of \$36,846 (December 31, 2018 - \$23,354).

18. Financial instruments and risk management

Fair value measurements

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

As at	March 31, 2019	December 31, 2018
Financial assets		
Cash	113,842	143,518
Trade and other receivables	273,716	381,754
Total	387,558	525,272
Financial liabilities		
Trade payables and other liabilities	220,347	323,015
Provisions	26,335	30,976
Total	246,682	353,991

The fair value of foreign exchange forward contracts represented a liability of \$84 as at March 31, 2019 (December 31, 2018 - \$1,017). These fair values are categorized within Level 2 of the fair value hierarchy. The fair value of foreign exchange forward contracts is estimated based on forward exchange rates observable at the end of the reporting period and contract forward rates.

Spin Master Corp.

Condensed consolidated interim financial statements for the three months ended March 31, 2019 and March 31, 2018

18. Financial instruments and risk management (continued)

Foreign currency risk

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

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

As at March 31, 2019, the Company is committed under outstanding foreign exchange forward contracts to purchase USD, representing total purchase commitments of \$12,199 over the next 12 months (December 31, 2018 - \$39,259).

19. 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.

Segment revenue and results

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

Three Months Ended March 31	2019	2018
Revenue by segment		
North America	141,510	184,644
Europe	64,656	66,793
Rest of world	34,313	36,608
Gross product sales	240,479	288,045
Sales allowances	30,402	32,213
Total net sales	210,077	255,832
Other revenue	28,918	29,839
Total revenue	238,995	285,671
Segment (loss) income		
North America	(20,518)	13,542
Europe	(3,301)	1,459
Rest of world	(1,071)	1,366
Total segment (loss) income	(24,890)	16,367
Corporate and other	(3,578)	(4,540)
(Loss) income before income tax (recovery) expense	(28,468)	11,827

Spin Master Corp.

Condensed consolidated interim financial statements for the three months ended March 31, 2019 and March 31, 2018

19. Segment information (continued)

Revenues for North America include revenues attributable to Canada of \$33,061 (2018 - \$37,972) for the three months ended March 31, 2019.

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

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

Segment assets

As at	March 31, 2019	December 31, 2018
North America	635,916	720,883
Europe	122,176	143,229
Rest of world	75,297	77,130
Total segment assets	833,389	941,242
Corporate and other	190,489	104,155
Total consolidated assets	1,023,878	1,045,397

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

As at	March 31, 2019	December 31, 2018
North America	298,186	295,521
Europe	13,327	13,253
Rest of world	8,735	7,567
Total segment non-current assets	320,248	316,341
Corporate and other	142,176	60,799
Total consolidated non-current assets	462,424	377,140

Non-current assets for North America include assets attributable to Canada of \$97,638 as at March 31, 2019 (December 31, 2018 - \$91,037).

Segment liabilities

As at	March 31, 2019	December 31, 2018
North America	179,802	271,371
Europe	32,015	48,107
Rest of world	25,338	40,710
Total segment liabilities	237,155	360,188
Corporate and other	129,733	22,742
Total consolidated liabilities	366,888	382,930

Spin Master Corp.

Condensed consolidated interim financial statements for the three months ended March 31, 2019 and March 31, 2018

19. Segment information (continued)

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

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

Depreciation and amortization by reportable segment

Three Months Ended March 31	2019	2018
North America	15,832	8,525
Europe	2,000	1,522
Rest of world	827	694
Total segment depreciation and amortization	18,659	10,741
Corporate and other	2,763	697
Total consolidated depreciation and amortization	21,422	11,438

In addition to the depreciation and amortization reported above, no impairment losses were recognized in respect of property, plant and equipment and intangible assets, for the three months ended March 31, 2019 (2018 - \$412). Impairment losses recognized during the three months ended March 31, 2018 were attributable to the Rest of world reportable segment.

Revenue from major product categories

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

Three Months Ended March 31	2019	2018
Activities, games & puzzles and plush	63,031	57,591
Remote control and interactive characters	31,049	91,156
Boys action and high-tech construction	49,419	16,725
Pre-school and girls	63,339	82,573
Outdoor	33,641	40,000
Gross product sales	240,479	288,045
Sales allowances	30,402	32,213
Total net sales	210,077	255,832
Other revenue	28,918	29,839
Total revenue	238,995	285,671

Spin Master Corp.

Condensed consolidated interim financial statements for the three months ended March 31, 2019 and March 31, 2018

19. Segment information (continued)

Major customers

Sales to the Company's two largest customers accounted for 36.3% (2018 - 36.9%) of consolidated gross product sales for the three months ended March 31, 2019. Other than the top two customers, no other single customer contributed 10% or more to gross product sales of the Company for the three months ended March 31, 2019.

Three Months Ended March 31	2019	2018
Gross product sales		
Customer 1	56,360	65,869
Customer 2	30,864	40,543
Total	87,224	106,412