

Spin Master Corp.

Condensed consolidated interim financial statements (unaudited)

For the three and nine months ended September 30, 2019 and September 30, 2018

Spin Master Corp.

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

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Spin Master Corp.

Condensed consolidated interim statements of financial position

(Unaudited, in thousands of United States dollars)	Notes	September 30, 2019	December 31, 2018
Assets			
Current assets			
Cash		151,351	143,518
Trade and other receivables	8	490,910	381,754
Inventories	9	216,132	110,131
Prepaid expenses		29,274	32,854
Income tax receivable		3,248	—
		890,915	668,257
Non-current assets			
Advances on royalties		5,359	10,091
Property, plant and equipment	10	65,243	56,020
Intangible assets	11	168,028	165,838
Goodwill	12	129,426	124,187
Deferred tax assets		20,046	21,004
Right-of-use assets	2	77,038	—
		465,140	377,140
Total assets		1,356,055	1,045,397
Liabilities			
Current liabilities			
Trade payables and other liabilities	13	438,248	323,015
Loans and borrowings		1,136	—
Contract liabilities		8,017	6,927
Provisions		30,233	29,233
Income tax payable		—	6,520
Lease liabilities	2	15,515	—
		493,149	365,695
Non-current liabilities			
Provisions		1,505	1,743
Deferred tax liabilities		31,675	15,492
Lease liabilities	2	63,973	—
		97,153	17,235
Total liabilities		590,302	382,930
Shareholders' equity			
Share capital	15	714,021	694,108
Accumulated deficit		(10,954)	(92,436)
Contributed surplus		32,625	40,905
Accumulated other comprehensive income		30,061	19,890
Total shareholders' equity		765,753	662,467
Total liabilities and shareholders' equity		1,356,055	1,045,397

Approved by the Board of Directors on November 5, 2019.

The accompanying notes on pages 5 to 20 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of operations and comprehensive income

(Unaudited, in thousands of United States dollars, except share data)	Notes	Three Months Ended September 30		Nine Months Ended September 30	
		2019	2018	2019	2018
Revenue	3	548,110	619,982	1,108,078	1,217,197
Cost of sales		261,223	302,232	549,206	597,401
Gross profit		286,887	317,750	558,872	619,796
Expenses					
Selling, marketing, distribution and product development	6	98,365	87,181	230,548	209,280
Administrative expenses	6	64,515	75,551	205,116	219,642
Other (income) expenses	4	(282)	812	(859)	(14,031)
Foreign exchange (gain) loss		(4,020)	5,372	5,919	4,044
Finance costs	5	3,182	2,732	8,462	6,546
Income before income tax expense		125,127	146,102	109,686	194,315
Income tax expense	7	32,990	38,211	28,204	50,814
Net income		92,137	107,891	81,482	143,501
Items that may be subsequently reclassified to net income or (loss)					
Currency translation adjustment (loss) gain		(8,849)	7,054	10,171	359
Other comprehensive (loss) gain		(8,849)	7,054	10,171	359
Total comprehensive income		83,288	114,945	91,653	143,860
Earnings per share					
Basic	16	0.90	1.06	0.80	1.41
Diluted	16	0.89	1.06	0.79	1.41
Weighted average number of common shares outstanding					
Basic	16	102,167,343	101,757,826	102,041,350	101,705,559
Diluted	16	103,024,083	102,462,318	102,787,161	102,104,609

The accompanying notes on pages 5 to 20 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		—	143,501	—	—	143,501
Currency translation adjustment		—	—	—	359	359
Share-based compensation	15	—	—	7,747	—	7,747
Shares released from equity participation	15	8,497	—	(8,497)	—	—
Exercise of share options	15	375	—	(86)	—	289
Settlement of LTIP		3,926	—	—	—	3,926
Change in LTIP settlement method	15	—	—	16,972	—	16,972
Balance at September 30, 2018		694,108	(103,839)	36,459	46,148	672,876
Balance at January 1, 2019		694,108	(92,436)	40,905	19,890	662,467
Net income		—	81,482	—	—	81,482
Currency translation adjustment		—	—	—	10,171	10,171
Share-based compensation	15	—	—	11,706	—	11,706
Shares released from equity participation	15	8,362	—	(8,362)	—	—
Exercise of share options	15	175	—	(42)	—	133
Settlement of LTIP	15	11,376	—	(11,582)	—	(206)
Balance at September 30, 2019		714,021	(10,954)	32,625	30,061	765,753

The accompanying notes on pages 5 to 20 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

Condensed consolidated interim statements of cash flows

For the nine months ended September 30

(Unaudited, in thousands of United States dollars)

	Notes	2019	2018
Operating activities			
Net income		81,482	143,501
Adjustments to reconcile net income to cash provided by operating activities			
Income tax expense	7	28,204	50,814
Interest (income) expense	5	(996)	1,268
Depreciation and amortization	6	68,429	48,759
Amortization of fair value increments to inventories acquired in business combinations		—	3,692
Accretion expense - lease liabilities	5	3,510	—
Accretion expense - other	5	1,330	1,687
Amortization of financing costs	5	703	646
Impairment of property, plant and equipment		—	1,105
Share-based compensation expense	15	11,706	7,747
Changes in net working capital	17	(83,335)	(83,679)
Changes in contingent consideration liabilities		(238)	(3,942)
Income taxes paid		(23,008)	(49,456)
Interest paid		(241)	(493)
Cash provided by operating activities		87,546	121,649
Investing activities			
Property, plant and equipment	10	(32,922)	(48,214)
Intangible assets	11	(31,200)	(16,159)
Disposal of property, plant and equipment		504	—
Business acquisitions, net of cash acquired	19	(9,353)	(77,029)
Cash used in investing activities		(72,971)	(141,402)
Financing activities			
Proceeds from borrowings		2,341	45,000
Repayment of borrowings		—	(45,036)
Proceeds from exercise of share options		133	289
Payment of lease liabilities		(10,600)	—
Cash (used in) provided by financing activities		(8,126)	253
Effect of foreign currency exchange rate changes on cash		1,384	(2,381)
Net increase (decrease) in cash during the period		7,833	(21,881)
Cash, beginning of period		143,518	117,262
Cash, end of period		151,351	95,381

The accompanying notes on pages 5 to 20 are an integral part of these condensed consolidated interim financial statements.

Spin Master Corp.

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

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 21). 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 November 5, 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 September 30, 2019 and 2018, the functional currencies of the Company's subsidiaries included the Canadian dollar, the Euro, the Great Britain pound, the Hong Kong dollar, the Mexican peso, the Chinese yuan, the Swedish krona and the Australian dollar. All financial information presented in USD has been rounded to the nearest thousand, except per share amounts and where otherwise indicated.

(D) Application of new and revised IFRSs

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

Spin Master Corp.

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

2. Summary of significant accounting policies (continued)

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

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

IFRS 16 Leases

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

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

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

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

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

On transition to IFRS 16, the Company recognized right-of-use assets and corresponding lease liabilities of \$83,419 on January 1, 2019. The Company has recognized depreciation expense of \$3,906 and \$9,565 in administrative expenses and accretion expense of \$1,267 and \$3,510 in finance costs in the condensed consolidated interim statements of operations and comprehensive income for the three and nine months ended September 30, 2019, respectively.

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

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

3. Revenue

The Company earns revenue from the following primary sources:

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Revenue from sale of goods	521,399	594,159	1,022,074	1,128,434
Other revenue	26,711	25,823	86,004	88,763
Total revenue	548,110	619,982	1,108,078	1,217,197

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

4. Other (income) expenses

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Impairment of non-current assets	—	693	—	1,105
Other	(282)	119	(859)	(15,136)
Total other (income) expenses	(282)	812	(859)	(14,031)

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 nine months ended September 30, 2018.

5. Finance costs

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Interest (income) expense	(399)	715	(996)	1,268
Bank fees	1,678	1,291	3,915	2,945
Accretion expense - lease liabilities	1,267	—	3,510	—
Accretion expense - other	400	514	1,330	1,687
Amortization of financing costs	236	212	703	646
Total finance costs	3,182	2,732	8,462	6,546

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

6. Expenses

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

Selling, marketing, distribution and product development

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Selling	36,519	30,563	74,457	65,333
Marketing	35,121	33,481	82,428	85,450
Distribution	18,359	15,938	51,574	38,667
Product development	8,366	7,199	22,089	19,830
Total selling, marketing, distribution and product development	98,365	87,181	230,548	209,280

Administrative expenses

	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2019	2018	2019	2018
Employee benefits expense		41,218	48,397	131,276	134,153
Restructuring - other		—	—	2,722	—
Technology		3,094	3,213	9,016	7,786
Professional services		5,274	6,477	15,267	17,515
Property and operations		5,118	8,807	17,000	24,311
Depreciation and amortization		8,974	3,965	23,809	9,402
Other	8	837	4,692	6,026	26,475
Total administrative expenses		64,515	75,551	205,116	219,642

Employee benefits expenses

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Salaries, wages and bonuses	1,477	1,026	3,811	2,915
Other employee benefits	167	210	590	678
Total employee benefits expenses in cost of sales	1,644	1,236	4,401	3,593
Salaries, wages and bonuses	33,330	39,296	98,705	103,815
Share-based compensation	3,412	3,612	11,706	7,747
Restructuring	236	404	5,383	2,234
Employee benefits	4,240	5,085	15,482	20,357
Total employee benefits expenses in administrative expenses	41,218	48,397	131,276	134,153
Total employee benefits expenses	42,862	49,633	135,677	137,746

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

6. Expenses (continued)

Depreciation and amortization expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Included in cost of sales	13,264	13,711	44,620	39,357
Included in administrative expenses	8,974	3,965	23,809	9,402
Total depreciation and amortization expense	22,238	17,676	68,429	48,759

7. Income tax

Income tax recognized in net income:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Current tax expense	31,920	40,709	27,327	53,437
Deferred tax expense (recovery)	1,070	(2,498)	877	(2,623)
Total income tax expense	32,990	38,211	28,204	50,814

8. Trade and other receivables

As at	September 30,	December 31,
	2019	2018
Trade receivables	506,763	403,981
Provisions for sales allowances	(121,004)	(135,005)
Allowance for doubtful accounts	(1,617)	(2,140)
	384,142	266,836
Other receivables	106,768	114,918
Total trade and other receivables	490,910	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 film and video production tax credits, royalties, commodity tax and other balances.

9. Inventories

As at	September 30,	December 31,
	2019	2018
Raw materials	16,056	11,025
Finished goods	200,076	99,106
Total inventories	216,132	110,131

The cost of inventories recognized as an expense in cost of sales for the three and nine months ended September 30, 2019 were \$233,972 and \$474,491 (September 30, 2018 - \$271,411 and \$534,952), respectively.

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

10. 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	19,540	5,947	5,127	2,308	32,922
Asset retirements	(8,570)	(2,202)	(1,722)	(108)	(12,602)
Foreign currency translation	(3,454)	(449)	1,116	(164)	(2,951)
Total at September 30, 2019	121,481	27,750	38,288	13,367	200,886
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	(15,811)	(2,717)	(4,191)	(1,009)	(23,728)
Asset retirements	8,570	2,202	1,722	108	12,602
Foreign currency translation	2,837	(31)	(47)	221	2,980
Total at September 30, 2019	(97,864)	(15,784)	(12,934)	(9,061)	(135,643)
Net carrying amount					
Total at December 31, 2018	20,505	9,216	23,349	2,950	56,020
Total at September 30, 2019	23,617	11,966	25,354	4,306	65,243

Spin Master Corp.

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

11. Intangible assets

	Note	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		—	—	27,642	3,558	31,200
Assets recognized upon acquisition	19	6,500	—	—	—	6,500
Foreign currency translation		916	32	2,534	515	3,997
Total at September 30, 2019		120,769	45,898	143,362	23,874	333,903
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		—	(5,131)	(28,455)	(1,550)	(35,136)
Foreign currency translation		—	41	(4,018)	(394)	(4,371)
Total at September 30, 2019		—	(16,954)	(129,778)	(19,143)	(165,875)
Net carrying amount						
Balance at December 31, 2018		113,353	34,002	15,881	2,602	165,838
Balance at September 30, 2019		120,769	28,944	13,584	4,731	168,028

12. Goodwill

As at	Note	September 30, 2019	December 31, 2018
Beginning of period		124,187	105,487
Additions during the period	19	4,576	19,629
Foreign currency translation		663	(929)
End of period		129,426	124,187

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

13. Trade payables and other liabilities

As at	September 30, 2019	December 31, 2018
Trade payables	290,448	160,570
Accrued liabilities	147,800	162,445
Total trade payables and other liabilities	438,248	323,015

During the nine months ended September 30, 2019, the Company executed the restructuring of the Gund, SwimWays, Cardinal and other business units. Included within accrued liabilities is a restructuring provision of \$1,709 for the period ended September 30, 2019 (December 31, 2018 - \$3,372). Accrued liabilities are comprised of payroll related liabilities, accrued royalties, commodity tax and other balances.

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

14. Provisions and contingent liabilities

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

15. Share capital

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

Unlimited number of multiple voting shares;

Unlimited number of subordinate voting shares; and

Unlimited number of preferred shares issuable in series.

	September 30,	December 31,
Number of shares	2019	2018
Multiple voting shares	70,647,887	70,697,887
Subordinate voting shares	31,536,963	31,091,601
Total number of common shares issued and outstanding	102,184,850	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 September 30, 2019, 1,068,258 (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 \$14,903 (December 31, 2018 - \$23,485).

The weighted average remaining contractual life for Participation Arrangements outstanding as at September 30, 2019 is 15 months.

Share based compensation expense of \$2,718 (2018 - \$4,664) relating to Participation Arrangements is recorded in administrative expenses in the condensed consolidated interim statement of operations and comprehensive income for the nine months ended September 30, 2019.

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15. Share capital (continued)

Long-Term Incentive Plan ("LTIP")

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

The Company settled vested LTIP grants during the nine months ended September 30, 2019 through the issuance of shares. The settlements resulted in a transfer of \$11,376 from contributed surplus to share capital.

RSUs and PSUs

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

(number of units)	September 30,	December 31,
	2019	2018
Outstanding, beginning of period	708,090	807,217
Granted	443,334	315,511
Exercised	(387,673)	(371,325)
Forfeited	(25,471)	(43,313)
Outstanding, end of period	738,280	708,090

Included in the above table are grants of 534,210 PSUs to certain key employees for the nine months ended September 30, 2019 (December 31, 2018 - 229,588).

Share based compensation expense of \$7,618 (2018 - \$8,263) relating to RSUs and PSUs is recorded in administrative expenses in the condensed consolidated interim statement of operations and comprehensive income for the nine months ended September 30, 2019. Corresponding entries were recorded in contributed surplus and in accrued liabilities in the prior year. Prior to August 1, 2018, the Company settled LTIP awards in cash, resulting in their recognition as liabilities, which were marked to market each period. Effective August 1, 2018, settlements of LTIP awards occur through the issuance of shares. As a result, the LTIP liabilities were reclassified to shareholders equity and are no longer marked to market.

Deferred Share Units ("DSUs")

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

(number of units)	September 30,	December 31,
	2019	2018
Outstanding, beginning of period	60,393	67,644
Granted	13,808	11,098
Exercised	—	(18,349)
Outstanding, end of period	74,201	60,393

Share based compensation expense of \$516 (2018 - \$178) relating to DSUs is recorded in administrative expenses in the condensed consolidated interim statement of operations and comprehensive income for the nine months ended September 30, 2019. A corresponding amount was recorded in accrued liabilities.

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15. Share capital (continued)

Share Purchase Options ("Options")

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

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

	Number of Options	Weighted average exercise price (CAD)
Outstanding, beginning of period	685,741	\$33.70
Granted	158,544	\$37.96
Exercised	(7,689)	\$22.94
Outstanding, end of period	836,596	\$34.75

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

	Nine Months Ended September 30	
	2019	2018
Weighted average exercise price per share	\$37.96	\$51.97
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 Options at grant date	\$12.96	\$18.43

Share based compensation expense of \$1,370 (2018 - \$1,219) relating to Options is recorded in administrative expenses in the condensed consolidated interim statement of operations and comprehensive income for the nine months ended September 30, 2019.

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

	Nine Months Ended September 30	
	2019	2018
Expense arising from equity-settled Participation Arrangements transactions	2,718	4,664
Expense arising from Options	1,370	1,219
Expense arising from equity-settled RSUs and PSUs	7,618	1,864
Total share based compensation expense	11,706	7,747

Share based compensation expense of \$11,706 (2018 - \$7,747) is recorded in administrative expenses in the condensed consolidated interim statement of operations and comprehensive income for the nine months ended September 30, 2019. A corresponding amount was recorded in contributed surplus.

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16. Earnings per share

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

	Three months ended September 30, 2019		Three months ended September 30, 2018	
	Weighted average number of shares	Per common share amount (\$)	Weighted average number of shares	Per common share amount (\$)
Basic	102,167,343	0.90	101,757,826	1.06
Diluted	103,024,083	0.89	102,462,318	1.06

	Nine months ended September 30, 2019		Nine months ended September 30, 2018	
	Weighted average number of shares	Per common share amount (\$)	Weighted average number of shares	Per common share amount (\$)
Basic	102,041,350	0.80	101,705,559	1.41
Diluted	102,787,161	0.79	102,104,609	1.41

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

17. Changes in net working capital

Nine Months Ended September 30	2019	2018
(Increase) decrease in:		
Trade and other receivables	(105,653)	(208,600)
Inventories	(107,955)	(23,210)
Prepaid expenses	3,722	(10,650)
Advances on royalties	5,515	4,301
	(204,371)	(238,159)
Increase (decrease) in:		
Trade payables and other liabilities	109,464	119,615
Contract liabilities	1,090	2,875
Provisions	1,021	4,424
Other	9,461	27,566
	121,036	154,480
Total changes in net working capital	(83,335)	(83,679)

18. Commitments for expenditures

As at September 30, 2019, the Company had minimum guarantees to licensors of \$34,319 (December 31, 2018 - \$23,354).

19. Business combinations

Acquisition of Hedbanz

On August 9, 2019, the Company acquired 100% of the issued and outstanding shares of The Future Trends Experience Limited, a licensor and producer of various editions of the Hedbanz line of business, pursuant to a share purchase agreement for total cash consideration of \$9,353. Hedbanz is best known as a family guessing game. The Company originally acquired the intellectual property for Hedbanz for the U.S and Mexico in 2011. The acquisition secures the Company the global intellectual property and the ability to sell, market and license for further penetration into markets presently under license as well as expansion into new territories.

The total purchase consideration has been allocated to the identifiable intangible assets based on their estimated fair values of \$6,500 (related to the brands and trademarks), \$1,723 related to a deferred tax liability and \$4,576 of goodwill acquired. The assets are included in the Activities, Games & Puzzles and Plush product category, effective August 9, 2019. The pro forma and actual results of operations for this acquisition have not been presented and are immaterial. There were \$100 in transaction related costs

Spin Master Corp.

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19. Business combinations (continued)

included in administrative expenses in the consolidated statement of operations and comprehensive income for the nine months ended September 30, 2019.

Assets acquired at the date of acquisition

	Fair Value as at August 9, 2019
Assets acquired	
Intangible assets	6,500
	6,500
Liabilities assumed	
Deferred tax liability	1,723
	1,723
Fair value of identifiable net assets acquired	4,777

Goodwill arising on acquisition

Consideration paid in cash	9,353
Fair value of identifiable net assets acquired	4,777
Goodwill arising from transaction	4,576

Goodwill arose on the acquisition of Hedbanz 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.

20. 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	September 30, 2019	December 31, 2018
Financial assets		
Cash	151,351	143,518
Trade and other receivables	490,910	381,754
Total	642,261	525,272
Financial liabilities		
Trade payables and other liabilities	438,248	323,015
Loans and borrowings	1,136	—
Provisions	31,738	30,976
Total	471,122	353,991

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

The fair value of foreign exchange forward contracts represented an asset of \$3,530 as at September 30, 2019 (December 31, 2018 - liability of \$1,017). These fair values are categorized within Level 2 of the fair value hierarchy. The fair value of foreign exchange forward contracts is estimated based on forward exchange rates observable at the end of the reporting period and contract forward rates.

Foreign currency risk

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

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

As at September 30, 2019, the Company is committed under outstanding foreign exchange forward contracts to purchase USD, representing total purchase commitments of \$32,303 over the next 18 months (December 31, 2018 - \$39,259).

21. Segment information

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

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

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

Spin Master Corp.

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

21. Segment information (continued)

Segment revenue and results

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Revenue by segment				
North America	372,035	439,137	717,487	825,324
Europe	138,158	135,988	266,201	247,162
Rest of world	73,080	83,096	156,817	169,983
Gross product sales	583,273	658,221	1,140,505	1,242,469
Sales allowances	61,874	64,062	118,431	114,035
Total net sales	521,399	594,159	1,022,074	1,128,434
Other revenue	26,711	25,823	86,004	88,763
Total revenue	548,110	619,982	1,108,078	1,217,197
Segment income				
North America	98,055	125,168	89,110	169,752
Europe	20,135	18,825	19,006	23,562
Rest of world	5,782	10,304	5,824	14,917
Total segment income	123,972	154,297	113,940	208,231
Corporate and other	1,155	(8,195)	(4,254)	(13,916)
Income before income tax expense	125,127	146,102	109,686	194,315

Revenues for North America include revenues attributable to Canada of \$48,394 (2018 - \$55,985) and \$117,948 (2018 - \$136,511) for the three and nine months ended September 30, 2019 and September 30, 2018, respectively.

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

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

Segment assets

As at	September 30,	December 31,
	2019	2018
North America	903,294	720,883
Europe	178,410	143,229
Rest of world	115,561	77,130
Total segment assets	1,197,265	941,242
Corporate and other	158,790	104,155
Total consolidated assets	1,356,055	1,045,397

Spin Master Corp.

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

21. Segment information (continued)

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

As at	September 30, 2019	December 31, 2018
North America	305,140	295,521
Europe	16,127	13,253
Rest of world	8,110	7,567
Total segment non-current assets	329,377	316,341
Corporate and other	135,763	60,799
Total consolidated non-current assets	465,140	377,140

Non-current assets for North America include assets attributable to Canada of \$102,672 as at September 30, 2019 (December 31, 2018 - \$91,037).

Segment liabilities

As at	September 30, 2019	December 31, 2018
North America	357,973	271,371
Europe	65,391	48,107
Rest of world	54,735	40,710
Total segment liabilities	478,099	360,188
Corporate and other	112,203	22,742
Total consolidated liabilities	590,302	382,930

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 September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
North America	16,239	14,672	48,503	40,019
Europe	1,940	1,479	5,561	4,182
Rest of world	780	637	2,573	2,277
Total segment depreciation and amortization	18,959	16,788	56,637	46,478
Corporate and other	3,279	888	11,792	2,281
Total consolidated depreciation and amortization	22,238	17,676	68,429	48,759

Spin Master Corp.

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21. Segment information (continued)

In addition to the depreciation and amortization reported above, no impairment losses were recognized in respect of property, plant and equipment and intangible assets for the nine months ended September 30, 2019 (2018 - \$1,105).

Revenue from major product categories

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Activities, games & puzzles and plush	152,415	166,533	295,551	310,319
Remote control and interactive characters	117,273	237,993	192,826	397,474
Boys action and high-tech construction	103,218	37,261	216,649	75,161
Pre-school and girls	203,998	208,366	363,776	378,379
Outdoor	6,369	8,068	71,703	81,136
Gross product sales	583,273	658,221	1,140,505	1,242,469
Sales allowances	61,874	64,062	118,431	114,035
Total net sales	521,399	594,159	1,022,074	1,128,434
Other revenue	26,711	25,823	86,004	88,763
Total revenue	548,110	619,982	1,108,078	1,217,197

Major customers

Sales to the Company's largest customer accounted for 26.0% (2018 - 25.9%) and 25.3% (2018 - 25.0%) of consolidated gross product sales for the three and nine months ended September 30, 2019, respectively. The Company's second largest customer accounted for 14.3% (2018 - 14.3%) and 13.9% (2018 - 14.5%). Other than the top two customers, no other single customer contributed 10% or more to gross product sales of the Company for the nine months ended September 30, 2019.

22. Related Parties

The Company periodically engages the services of a law firm whose managing partner is also a member of the Company's Board of Directors. During the nine months ended September 30, 2019, the fees for services rendered were approximately \$346 (2018 - \$736).