November 5, 2019

SPIN MASTER CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") for Spin Master Corp. ("Spin Master" or the "Company") provides information concerning the Company's financial condition and financial performance for the three and nine months ended September 30, 2019 ("third quarter", "the quarter", "Q3"). This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2019 and accompany notes ("interim financial statements"), its audited annual consolidated financial statements and accompanying notes ("financial statements") and its annual MD&A for the year ended December 31, 2018 ("Annual MD&A"). Additional information relating to the Company, including the Company's annual information form for the year ended December 31, 2018, can be found under the Company's profile on the System of Electronic Document Analysis and Retrieval (SEDAR) which is administered by the Canadian Securities Administrators ("CSA") at www.sedar.com.

Some of the statements in this MD&A contain forward-looking information that involve risks and uncertainties. See "Forward-Looking Statements". Actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those described in "Risks Relating to Spin Master's Business" in our Annual MD&A and elsewhere in our Annual MD&A and this MD&A.

BASIS OF PRESENTATION

The Company's interim financial statements and accompanying notes have been prepared in accordance with International Accounting Standard 34, Interim Reporting and all financial information is prepared in accordance with International Financial Reporting Standards ("IFRS"). However, certain financial measures contained in this MD&A are non-IFRS measures and are discussed further in the "Non-IFRS Financial Measures" section. All financial information is presented in United States dollars ("$", "dollars" and "USD") and has been rounded to the nearest thousand, except per share amounts and where otherwise indicated.

BUSINESS OVERVIEW

Spin Master is a leading global 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.

Spin Master's principal strategies to drive the Company's continued growth, both organically and through acquisitions, include:

- Innovate using our global internal and external research and development network;
- Develop evergreen global entertainment properties;
- Increase sales in international developing and emerging markets; and
- Leverage global platform through strategic acquisitions.

Spin Master's growth strategy is centered around the Company's 36-month brand innovation pipeline, which remains robust. This pipeline is fed by multiple touch points the Company has with consumers, including physical products, traditional and innovative entertainment contact and mobile games. These various touch points strengthen consumers' attachments to the brands and franchises and are the engine of long-term growth.

Spin Master continues to expand into additional content for traditional television as well as more short-form and long-form content, including movies, across a variety of distribution channels. In addition, the Company will be increasing its focus on e-commerce and direct-to-consumer initiatives as consumer purchasing habits in the retail landscape evolve.

Spin Master's business is separated into three geographic segments: North America, comprised of the U.S. and Canada; Europe, comprised of the United Kingdom, France, Italy, the Netherlands, Germany, Austria, Switzerland, Belgium, Luxembourg, Slovakia, Hungary, Romania, Czech Republic, Poland, Russia and Greece; and the Rest of World, comprised of Hong Kong, China, Vietnam, India, Australia, Mexico and all other areas of the world serviced by Spin Master's third party distribution network. The Company remains focused on its long-term goal of more than 40% of sales outside of the North America segment.

Spin Master's diversified portfolio of children's products, brands and entertainment properties is reported under five product categories: (1) Activities, Games & Puzzles and Plush; (2) Remote Control and Interactive Characters; (3) Boys Action and High-Tech Construction; (4) Pre-School and Girls; and (5) Outdoor.

Seasonality factors cause the Company's operating results to fluctuate significantly from quarter to quarter. A majority of the Company's annual sales occur during the third and fourth quarters of the Company's fiscal year with a significant portion of its net income earned and cash flows generated during the same period.

Highlights for the three months ended September 30, 2019 as compared to the same period in 2018[1]:

(all amounts in USD 000's, except per share)

- Revenue of $548,110 decreased by 11.6% from $619,982. In Constant Currency terms (a non-IFRS measure), revenue decreased by 10.8%.
- Gross profit as a percentage of revenue increased to 52.3% from 51.3%.
- Selling, marketing, distribution and product development expenses increased to $98,365 or 17.9% of revenue from $87,181 or 14.1%.
- Administrative expenses decreased to $64,515 or 11.8% of revenue from $75,551 or 12.2%.
- Net income was $92,137 or $0.89 per share (diluted) compared to $107,891 or $1.06 per share (diluted).
- Adjusted Net Income (a non-IFRS measure) was $93,238 or $0.90 per share (diluted) compared to adjusted Net Income of $117,734 or $1.15 per share (diluted).
- Adjusted EBITDA (a non-IFRS measure) decreased to $150,175 or 27.4% of revenue, from $179,840 or 29.0%.
- On August 9, 2019, the Company acquired the intellectual property associated with the Hedbanz brand, pursuant to a share purchase agreement for total cash consideration of $9,353. The assets are included in the Activities, Games & Puzzles and Plush product category.

Highlights for the nine months ended September 30, 2019 as compared to the same period in 2018[1]:

(all amounts in USD 000's, except per share)

- Revenue of $1,108,078 decreased by 9.0% from $1,217,197. In Constant Currency terms (a non-IFRS measure), revenue decreased by 7.8%.
- Gross profit as a percentage of revenue decreased to 50.4% from 50.9%.
- Selling, marketing, distribution and product development expenses increased to $230,548 or 20.8% of revenue from $209,280 or 17.2%.
- Administrative expenses decreased by $14,526 to $205,116 from $219,642. As a percentage of revenue, administrative expenses increased to 18.5% from 18.0%.
- Net income was $81,482 or $0.79 per share (diluted) compared to $143,501 or $1.41 per share.

[1] The Company adopted International Financial Reporting Standard 16 Leases ("IFRS 16"), effective January 1, 2019 and implemented the standard using the modified retrospective approach. As a result, the Company's interim financial statements for the three months and nine months ended September 30, 2019 reflect lease accounting under IFRS 16. Prior year results have not been restated.

- Adjusted Net Income (a non-IFRS measure) was $100,595 or $0.98 per share compared to adjusted Net Income of $157,429 or $1.54 per share (diluted).
- Adjusted EBITDA (a non-IFRS measure) decreased to $212,307 or 19.2% of revenue, from $268,480 or 22.1%.

FINANCIAL PERFORMANCE

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

Consolidated Results

The following table provides a summary of Spin Master's consolidated results for the three and nine months ended September 30, 2019 and 2018[1]:

	Three Months Ended September 30			
(All amounts in USD 000's)	**2019**	**2018**	**$ Change**	**% Change**
Revenue	548,110	619,982	(71,872)	(11.6)%
Cost of sales	261,223	302,232	(41,009)	(13.6)%
Gross profit	**286,887**	**317,750**	**(30,863)**	**(9.7)%**
Selling, marketing, distribution and product development	98,365	87,181	11,184	12.8 %
Administrative expenses	64,515	75,551	(11,036)	(14.6)%
Other income	(282)	812	(1,094)	(134.7)%
Foreign exchange (gain) loss	(4,020)	5,372	(9,392)	(174.8)%
Finance costs	3,182	2,732	450	16.5 %
Income before income tax expense	**125,127**	**146,102**	**(20,975)**	**(14.4)%**
Income tax expense	32,990	38,211	(5,221)	(13.7)%
Net income	**92,137**	**107,891**	**(15,754)**	**(14.6)%**

	Nine Months Ended September 30			
(All amounts in USD 000's)	**2019**	**2018**	**$ Change**	**% Change**
Revenue	1,108,078	1,217,197	(109,119)	(9.0)%
Cost of sales	549,206	597,401	(48,195)	(8.1)%
Gross profit	**558,872**	**619,796**	**(60,924)**	**(9.8)%**
Selling, marketing, distribution and product development	230,548	209,280	21,268	10.2 %
Administrative expenses	205,116	219,642	(14,526)	(6.6)%
Other income	(859)	(14,031)	13,172	(93.9)%
Foreign exchange loss	5,919	4,044	1,875	46.4 %
Finance costs	8,462	6,546	1,916	29.3 %
Income before income tax expense	**109,686**	**194,315**	**(84,629)**	**(43.6)%**
Income tax expense	28,204	50,814	(22,610)	(44.5)%
Net income	**81,482**	**143,501**	**(62,019)**	**(43.2)%**

[1] The Company adopted International Financial Reporting Standard 16 Leases ("IFRS 16"), effective January 1, 2019 and implemented the standard using the modified retrospective approach. As a result, the Company's interim financial statements for the three months and nine months ended September 30, 2019 reflect lease accounting under IFRS 16. Prior year results have not been restated.

Revenue

For the three months ended September 30, 2019 as compared to the same period in 2018:

The following table provides a summary of Spin Master's revenue and details by product category for the three months ended September 30, 2019 and 2018:

	Three Months Ended September 30			
(All amounts in USD 000's)	**2019**	**2018**	**$ Change**	**% Change**
Activities, Games & Puzzles and Plush	152,415	166,533	(14,118)	(8.5)%
Remote Control and Interactive Characters	117,273	237,993	(120,720)	(50.7)%
Boys Action and High-Tech Construction	103,218	37,261	65,957	177.0 %
Pre-School and Girls	203,998	208,366	(4,368)	(2.1)%
Outdoor	6,369	8,068	(1,699)	(21.1)%
Gross Product Sales[2]	**583,273**	**658,221**	**(74,948)**	**(11.4)%**
Sales Allowances[2]	61,874	64,062	(2,188)	(3.4)%
Total Net Sales[2]	**521,399**	**594,159**	**(72,760)**	**(12.2)%**
Other revenue	26,711	25,823	888	3.4 %
Total Revenue	**548,110**	**619,982**	**(71,872)**	**(11.6)%**

[2] Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".

Gross Product Sales decreased by $74,948 or 11.4%, to $583,273 with an unfavourable foreign exchange impact of $5,395 or 0.8%. The decrease was primarily attributed to lower sales of *Hatchimals*, partially offset by growth in the Boys Action and High-Tech Construction product category.

Gross Product Sales in Activities, Games & Puzzles and Plush decreased by $14,118 or 8.5% to $152,415. The decrease was driven primarily by lower sales of *Bunchems* and Spin Master's Games & Puzzles portfolio, partially offset by increases in *Cool* branded products.

Gross Product Sales in Remote Control and Interactive Characters decreased by $120,720 or 50.7% to $117,273, primarily due to lower sales of *Hatchimals,* while *Luvabella*, *Zoomer* and *Air Hogs* also declined, partially offset by sales of *Owleez*, *Monster Jam RC* and *Juno.*

Gross Product Sales in Boys Action and High-Tech Construction increased by $65,957 or 177.0% to $103,218. The increase was primarily driven by sales of *Bakugan*, *DreamWorks Dragons* and *Monster Jam*, partially offset by decreases in *Boxer*, *Fugglers* and *Flush Force*.

Gross Product Sales in Pre-School and Girls decreased by $4,368 or 2.1% to $203,998. The decrease was driven primarily by declines in *Party Popteenies* and *Rusty Rivets*, partially offset by increases in *PAW Patrol*, *Twisty Petz* and sales of *Candylocks*, *Awesome Bloss'ems* and *Pre Cool.*

Gross Product Sales in Outdoor decreased by $1,699 or 21.1% to $6,369.

Sales Allowances decreased by $2,188 or 3.4% to $61,874, primarily driven by the timing of promotional spending. As a percentage of Gross Product Sales, Sales Allowances increased 0.9% to 10.6% from 9.7%, attributed to lower Gross Product Sales.

Other revenue increased by $888 or 3.4% to $26,711, driven by increased royalty income from products marketed by third parties using Spin Master's owned intellectual property and app revenue from Toca Boca and Sago Mini, partially offset by a decrease in television distribution revenue.

The following table provides a summary of Spin Master's Gross Product Sales by geographic segment for the three months ended September 30, 2019 and 2018:

	Three Months Ended September 30			
(All amounts in USD 000's)	**2019**	**2018**	**$ Change**	**% Change**
North America	372,035	439,137	(67,102)	(15.3)%
Europe	138,158	135,988	2,170	1.6 %
Rest of World	73,080	83,096	(10,016)	(12.1)%
Gross Product Sales[2]	**583,273**	**658,221**	**(74,948)**	**(11.4)%**

[2] Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".

As a percentage of total Gross Product Sales, the North America segment decreased 2.9% to 63.8% compared to 66.7% in the prior year. International sales, comprised of the Europe and Rest of World segments, increased 2.9% to 36.2% compared to 33.3% in the prior year, consistent with the Company's long-term goal of more than 40% of Gross Product Sales outside of the North America segment.

Gross Product Sales in North America decreased by $67,102 or 15.3% to $372,035, with an unfavourable foreign exchange impact of $91. The decrease was driven by declines in *Hatchimals*, *Party Popteenies*, *Zoomer* and Spin Master's Games & Puzzles portfolio*,* which was partially offset by sales of *Monster Jam* products, *Owleez*, *Bakugan*, and *DreamWorks Dragons* and increases in *PAW Patrol*.

Gross Product Sales in Europe increased by $2,170 or 1.6% to $138,158, with an unfavourable foreign exchange impact of $4,320. The increase was primarily driven by sales of *Bakugan* and *DreamWorks Dragons*, partially offset by declines in *Hatchimals* and *Party Popteenies*.

Gross Product Sales in Rest of World decreased by $10,016 or 12.1% to $73,080, with an unfavourable foreign exchange impact of $984. The decrease was primarily due to declines of *Hatchimals*, *Party Popteenies* and *Air Hogs*, offset by sales of *Bakugan*, *Owleez* and *Monster Jam* products.

For the nine months ended September 30, 2019 as compared to the same period in 2018:

The following table provides a summary of Spin Master's revenue and details by product category for the nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30			
(All amounts in USD 000's)	**2019**	**2018**	**$ Change**	**% Change**
Activities, Games & Puzzles and Plush	295,551	310,319	(14,768)	(4.8)%
Remote Control and Interactive Characters	192,826	397,474	(204,648)	(51.5)%
Boys Action and High-Tech Construction	216,649	75,161	141,488	188.2 %
Pre-School and Girls	363,776	378,379	(14,603)	(3.9)%
Outdoor	71,703	81,136	(9,433)	(11.6)%
Gross Product Sales[2]	**1,140,505**	**1,242,469**	**(101,964)**	**(8.2)%**
Sales Allowances[2]	118,431	114,035	4,396	3.9 %
Total Net Sales[2]	**1,022,074**	**1,128,434**	**(106,360)**	**(9.4)%**
Other revenue	86,004	88,763	(2,759)	(3.1)%
Total Revenue	**1,108,078**	**1,217,197**	**(109,119)**	**(9.0)%**

[2] Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".

Gross Product Sales decreased by $101,964 or 8.2% to $1,140,505, with an unfavourable foreign exchange impact of $14,182 or 1.1%. The decrease was primarily attributed to lower sales of *Hatchimals*, in the Remote Control and Interactive Characters product category.

Gross Product Sales in Activities, Games & Puzzles and Plush decreased by $14,768 or 4.8% to $295,551, primarily driven by lower sales of *Bunchems* and Spin Master's Games & Puzzles portfolio, partially offset by increases in *Gund* and *Cool Maker*.

Gross Product Sales in Remote Control and Interactive Characters decreased by $204,648 or 51.5% to $192,826, primarily due to declines in *Hatchimals*, *Zoomer*, *Luvabella* and *Air Hogs*, partially offset by sales of *Owleez*, *Monster Jam RC* and *Juno.*

Gross Product Sales in Boys Action and High-Tech Construction increased by $141,488 or 188.2% to $216,649, primarily due to sales of *Bakugan*, *DreamWorks Dragons* and *Monster Jam*, partially offset by decreases in *Flush Force*, *Boxer* and *Star Wars* licensed merchandise.

Gross Product Sales in Pre-School and Girls decreased by $14,603 or 3.9% to $363,776, driven by declines in *Party Popteenies*, *PAW Patrol* and *Rusty Rivets*, partially offset by increases in *Twisty Petz* and sales of *Candylocks*, *Awesome Bloss'ems* and *Pre Cool.*

Gross Product Sales in Outdoor, decreased by $9,433 or 11.6% to $71,703.

Sales Allowances increased by $4,396 or 3.9% to $118,431, driven primarily by the timing of promotional spending. Sales Allowances, as a percentage of Gross Product Sales increased 1.2% to 10.4% from 9.2%.

Other revenue decreased by $2,759 or 3.1% to $86,004, driven by decreased royalty income from products marketed by third parties using Spin Master's owned intellectual property, partially offset by increased television distribution revenue and app revenue from Toca Boca and Sago Mini.

The following table provides a summary of Spin Master's Gross Product Sales by geographic segment for the nine months ended September 30, 2019 and 2018**:**

	Nine Months Ended September 30			
(All amounts in USD 000's)	**2019**	**2018**	**$ Change**	**% Change**
North America	717,487	825,324	(107,837)	(13.1)%
Europe	266,201	247,162	19,039	7.7 %
Rest of world	156,817	169,983	(13,166)	(7.7)%
Total Gross Product Sales[2]	**1,140,505**	**1,242,469**	**(101,964)**	**(8.2)%**

[2]Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".

As a percentage of total Gross Product Sales, the North America segment decreased 3.5% to 62.9% compared to 66.4% in the prior year. International sales, comprised of the Europe and Rest of World segments, increased 3.5% to 37.1% compared to 33.6% in the prior year.

Gross Product Sales in North America decreased by $107,837 or 13.1% to $717,487, with an unfavourable foreign exchange impact of $512. The decrease was driven primarily by declines in *Hatchimals*, *Party Popteenies*, *Zoomer*, *PAW Patrol* and Spin Master's Games & Puzzles portfolio, partially offset by sales of *Monster Jam* products, *DreamWorks Dragons*, *Bakugan* and *Owleez* and increases in *Gund* plush products and *Twisty Petz*.

Gross Product Sales in Europe increased by $19,039 or 7.7% to $266,201, with an unfavourable foreign exchange impact of $11,125. Growth was primarily driven by sales of *Bakugan* and *DreamWorks Dragons* and increases in *Twisty Petz* and *Cool Maker*, partially offset by declines in *Hatchimals* and *Bunchems*.

Gross Product Sales in Rest of World decreased by $13,166 or 7.7% to $156,817, with an unfavourable foreign exchange impact of $2,545. The decrease was primarily driven by declines in *Hatchimals*, *PAW Patrol* and *Party Popteenies*, offset by sales in *Bakugan*, *DreamWorks Dragons* and *Monster Jam* products.

Gross Profit as compared to the same period in 2018:

	Three Months Ended September 30			
(All amounts in USD 000's)	**2019**	**2018**	**$ Change**	**% Change**
Gross profit	**286,887**	**317,750**	**(30,863)**	**(9.7)%**
Gross profit as % of revenue	52.3 %	51.3 %	N/A	1.0 %

For the three months ended September 30, 2019, gross profit decreased by $30,863 or 9.7% to $286,887. As a percentage of revenue, gross profit increased to 52.3% from 51.3%, primarily due to favourable changes in product mix, partially offset by increased freight-related expenses and higher Sales Allowances.

	Nine Months Ended September 30			
(All amounts in USD 000's)	**2019**	**2018**	**$ Change**	**% Change**
Gross profit	**558,872**	**619,796**	**(60,924)**	**(9.8)%**
Gross profit as % of revenue	50.4 %	50.9 %	N/A	(0.5)%

For the nine months ended September 30, 2019, gross profit decreased by $60,924 or 9.8% to $558,872. As a percentage of revenue, gross profit decreased to 50.4% from 50.9%, primarily due to increased freight-related expenses, higher Sales Allowances, increased depreciation and amortization and a decrease in other revenue, partially offset by favourable changes in product mix.

Selling, Marketing, Distribution and Product Development Expenses as compared to the same period in 2018:

	Three Months Ended September 30					
(All amounts in USD 000's)	**2019**	**% of revenue**	**2018**	**% of revenue**	**$ Change**	**% Change**
Selling	36,519	6.7 %	30,563	4.9 %	5,956	19.5 %
Marketing	35,121	6.4 %	33,481	5.4 %	1,640	4.9 %
Distribution	18,359	3.3 %	15,938	2.6 %	2,421	15.2 %
Product development	8,366	1.5 %	7,199	1.2 %	1,167	16.2 %
Total	**98,365**	**17.9 %**	**87,181**	**14.1 %**	**11,184**	**12.8 %**

Selling expenses increased by $5,956 or 19.5% to $36,519. Selling expenses as a percentage of revenue increased to 6.7% from 4.9% due to increased sales of licensed products.

Marketing expenses increased by $1,640 or 4.9% to $35,121, primarily as a result of higher media expense. Marketing expenses as a percentage of revenue increased to 6.4% from 5.4%.

Distribution expenses increased by $2,421 or 15.2% to $18,359, primarily due to increased warehousing and shipping costs arising from the shift towards higher domestic sales compared to direct import sales, primarily in the U.S. Distribution expenses as a percentage of revenue increased to 3.3% from 2.6%.

Product development expenses increased by $1,167 or 16.2% to $8,366, primarily due to the timing of projects in the Activities, Games & Puzzles and Plush product categories, offset in part by lower expenses on Remote Control and Interactive Characters product categories.

	Nine Months Ended September 30					
(All amounts in USD 000's)	2019	% of revenue	2018	% of revenue	$ Change	% Change
Selling	74,457	6.7 %	65,333	5.4 %	9,124	14.0 %
Marketing	82,428	7.4 %	85,450	7.0 %	(3,022)	(3.5)%
Distribution	51,574	4.7 %	38,667	3.2 %	12,907	33.4 %
Product development	22,089	2.0 %	19,830	1.6 %	2,259	11.4 %
Total	**230,548**	**20.8 %**	**209,280**	**17.2 %**	**21,268**	**10.2 %**

Selling expenses increased by $9,124 or 14.0% to $74,457. Selling expenses as a percentage of revenue increased to 6.7% from 5.4% due to increased sales of licensed products.

Marketing expenses decreased by $3,022 or 3.5% to $82,428, primarily driven by decreased media expenses, influencer expenses and market research, partially offset by higher experiential initiatives. Marketing expenses as a percentage of revenue increased to 7.4% from 7.0%.

Distribution expenses increased by $12,907 or 33.4% to $51,574, primarily due to investments in the establishment of new distribution centres in the U.S., Hungary and Russia in order to strengthen the Company's global distribution network as well as increased warehousing and shipping costs arising from the shift towards higher domestic sales compared to direct import sales, primarily in the U.S. Distribution expenses as a percentage of revenue increased to 4.7% from 3.2%.

Product development expenses increased by $2,259 or 11.4% to $22,089, primarily due to the timing of projects in the Pre-School and Girls product category, offset by lower expenses on Boys Action and High-Tech Construction product categories.

Administrative Expenses as compared to the same period in 2018:

For the three months ended September 30, 2019, administrative expenses decreased by $11,036 or 14.6% to $64,515. The decrease was primarily due to decreases in personnel related expenses and bad debt expense. Administrative expenses as a percentage of revenue decreased to 11.8% from 12.2%. Adjusted Administrative Expenses (a non-IFRS measure) as a percentage of revenue decreased to 9.5% from 10.9%.

For the nine months ended September 30, 2019, administrative expenses decreased by $14,526 or 6.6% to $205,116. The decrease was primarily due to bad debt expense related to Toys "R" Us of $15,152 incurred in the first quarter of 2018 and a decrease in personnel related expenses, offset in part by an increase in restructuring expenses in order to position the Company for future growth and an increase in depreciation related to the Company's new corporate office in Toronto. During the nine months ended September 30, 2019, the Company executed the restructuring of the Gund, SwimWays and Cardinal business units in order to position the Company for future growth. Administrative expenses as a percentage of revenue increased to 18.5% from 18.0%. Adjusted Administrative Expenses (a non-IFRS measure) as a percentage of revenue decreased to 14.6% from 15.2%.

Finance Costs as compared to the same period in 2018:

For the three months ended September 30, 2019, finance costs increased by $450 to $3,182. For the nine months ended September 30, 2019, finance costs increased by $1,916 to $8,462. The increase was primarily due to finance costs relating to lease liabilities, offset in part by increased interest income.

Foreign exchange (gain) loss as compared to the same period in 2018:

For the three months ended September 30, 2019, there was a foreign exchange gain of $4,020 compared to a loss of $5,372. For the nine months ended September 30, 2019, there was a foreign exchange loss of $5,919 compared to $4,044. Foreign exchange (gains) losses are generated by the translation of monetary assets/

liabilities denominated in a currency other than the functional currency of the applicable entity and gains/losses related to the Company's hedging programs.

Income tax expense as compared to the same period in 2018:

For the three months ended September 30, 2019 the Company had an income tax expense of $32,990 compared to $38,211. The effective tax rate was 26.4% compared to 26.2%. For the nine months ended September 30, 2019 the Company had an income tax expense of $28,204 compared to $50,814. The effective income tax rate was 25.7% compared to 26.2%. For the nine months ended September 30, 2019, the decrease in the effective income tax rate was driven by the recognition of a tax benefit in 2019, which was previously not recognized.

Net income as compared to the same period in 2018:

Net income for the three months ended September 30, 2019 was $92,137, a decrease of $15,754 or 14.6% from $107,891. Excluding share-based compensation, restructuring, foreign exchange gains/losses and other non-recurring items, Adjusted Net Income (a non-IFRS measure) for the three months ended September 30, 2019 was $93,238, a decrease of $24,496 or 20.8% from $117,734.

Net income for the nine months ended September 30, 2019 was $81,482, a decrease of $62,019 or 43.2% from net income of $143,501. Excluding share-based compensation, restructuring, foreign exchange gains/losses and other non-recurring items, Adjusted Net Income (a non-IFRS measure) for the nine months ended September 30, 2019 was $100,595, a decrease of $56,834 or 36.1% from $157,429.

OUTLOOK

On a full year comparative basis, consistent with prior guidance, the Company continues to expect to grow organic Gross Product Sales[2] in the low single digit range relative to 2018.

Although the Company continues to be focused on cost management and productivity initiatives, the Company has incurred higher transportation and inventory storage costs due to the shift towards domestic sales and a longer than anticipated ramp up period in the consolidation of the Company's distribution centres in the U.S. As a result, the Company now expects to deliver Adjusted EBITDA Margin[2] for 2019 slightly below 2018, compared to previous guidance of delivering Adjusted EBITDA Margin[2] in-line with 2018.

[2] Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".

SELECTED QUARTERLY FINANCIAL INFORMATION

Seasonality factors cause Spin Master's operating results to fluctuate significantly from quarter to quarter. A majority of the Company's annual sales occur during the third and fourth quarters of the Company's fiscal year with a significant portion of its net income earned during the same period.

The following table provides selected historical information and other data, which should be read in conjunction with the financial statements of the Company.

	Three Months Ended							
(All amounts in USD 000's except EPS)	**Sep 30, 2019**	**Jun 30, 2019**	**Mar 31, 2019**	**Dec 31, 2018**	**Sep 30, 2018**	**Jun 30, 2018**	**Mar 31, 2018**	**Dec 31, 2017**
Revenue	548,110	320,973	238,995	414,340	619,982	311,544	285,671	440,863
Adjusted EBITDA[2]	150,175	55,102	7,030	35,106	179,840	45,378	43,262	47,343
Adjusted EBITDA margin[2]	27.4%	17.2%	2.9%	8.5%	29.0%	14.6%	15.1%	10.7%
Net income (loss)	92,137	10,247	(20,902)	11,403	107,891	26,911	8,699	20,040
Basic EPS	$0.90	$0.10	$(0.21)	$0.11	$1.06	$0.26	$0.09	$0.21
Diluted EPS	$0.89	$0.10	$(0.21)	$0.11	$1.06	$0.26	$0.09	$0.21
Adjusted Net Income (Loss)[2]	93,238	19,819	(12,462)	6,073	117,734	17,676	22,019	25,512
Basic adjusted EPS[2]	$0.91	$0.19	$(0.12)	$0.06	$1.16	$0.17	$0.22	$0.25
Diluted adjusted EPS[2]	$0.90	$0.19	$(0.12)	$0.06	$1.15	$0.17	$0.22	$0.25
Free cash flow[2]	128,597	18,490	(39,824)	(11,506)	149,778	19,511	(28,334)	18,439

[2] Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".

The following table provides reconciliations of net income (loss) to EBITDA, Adjusted EBITDA and Adjusted Net Income (Loss).

	Three Months Ended							
(All amounts in USD 000's)	**Sep 30, 2019**	**Jun 30, 2019**	**Mar 31, 2019**	**Dec 31, 2018**	**Sep 30, 2018**	**Jun 30, 2018**	**Mar 31, 2018**	**Dec 31, 2017**
Net income (loss)	**92,137**	**10,247**	**(20,902)**	**11,403**	**107,891**	**26,911**	**8,699**	**20,040**
Finance costs	3,182	2,613	2,667	2,852	2,732	2,214	1,600	2,584
Depreciation and amortization	22,238	24,769	21,422	25,436	17,676	19,645	11,438	12,422
Income tax expense (recovery)	32,990	2,780	(7,566)	2,708	38,211	9,475	3,128	4,843
EBITDA (1)	**150,547**	**40,409**	**(4,379)**	**42,399**	**166,510**	**58,245**	**24,865**	**39,889**
Normalization adjustments								
Restructuring expense (2)	236	7,196	673	5,024	404	615	1,215	327
Foreign exchange (gain) loss (3)	(4,020)	3,560	6,379	(13,390)	5,372	(1,331)	3	2,866
Share based compensation (4)	3,412	3,937	4,357	4,446	3,612	2,108	2,027	2,076
Legal settlement (5)	—	—	—	—	—	(15,500)	—	—
Acquisition related incentive compensation (6)	—	—	—	(334)	250	1,241	—	(840)
Amortization of fair market value adjustments (7)	—	—	—	—	3,692	—	—	450
Transaction costs (8)	—	—	—	—	—	—	—	44
Bad debt (recovery) expense (9)	—	—	—	(3,039)	—	—	15,152	—
Impairment of intangible assets (10)	—	—	—	—	—	—	—	2,531
Adjusted EBITDA (1) (12)	**150,175**	**55,102**	**7,030**	**35,106**	**179,840**	**45,378**	**43,262**	**47,343**
Finance costs	3,182	2,613	2,667	2,852	2,732	2,214	1,600	2,584
Depreciation and amortization	22,238	24,769	21,422	25,436	17,676	19,645	11,438	12,422
Income tax expense (recovery)	32,990	2,780	(7,566)	2,708	38,211	9,475	3,128	4,843
Tax effect of normalization adjustments (11)	(1,473)	5,121	2,969	(1,963)	3,487	(3,632)	5,077	1,982
Adjusted Net Income (Loss) (1)	**93,238**	**19,819**	**(12,462)**	**6,073**	**117,734**	**17,676**	**22,019**	**25,512**

Footnotes:

1) Non-IFRS financial measure. See "Non-IFRS Financial Measures".

2) Restructuring expense primarily relates to personnel related costs. In the second quarter of 2019 and fourth quarter of 2018, restructuring expenses also included costs related to facility closures.

3) Includes foreign exchange (gains) losses generated by the translation of monetary assets/liabilities denominated in a currency other than the functional currency of the applicable entity and (gains) losses related to the Company's hedging programs.

4) Related to non-cash expenses associated with subordinate voting shares granted to equity participants at the time of the Company's initial public offering ("IPO") and share option expense. As of August 1, 2018, share based compensation includes non-cash expenses related to the Company's Long-Term Incentive Plan ("LTIP").

5) Non-recurring legal settlement in the Company's favour in the second quarter of 2018.

6) Remuneration expense associated with contingent consideration for the SwimWays acquisition.

7) Amortization of fair market value adjustments to inventory relating to the acquisition of Gund in the second quarter of 2018 and Aerobie in the third quarter of 2017.

8) Non-recurring transaction costs relating to the Marbles acquisition in the second quarter of 2017.

9) Non-recurring bad debt (recovery) expense related to the bankruptcy declaration and liquidation proceedings of TRU during the first and fourth quarters of 2018.

10) Non-cash impairment charges for intangible assets relating to licenses, content development, brands and trademarks.

11) Tax effect of normalization adjustments (Footnotes 2-10). Normalization adjustments are tax effected at the effective tax rate of the given year-to-date period.

12) The comparative information presented for 2018 and 2017 has not been restated for the adoption of IFRS 16. The impact of IFRS 16 on Adjusted EBITDA would be an increase of $2,363, $2,243, $3,372 and $3,314 for the first, second, third and fourth quarters of 2018, respectively. For 2017, the impact of IFRS 16 on Adjusted EBITDA would be an increase of $2,973 for the fourth quarter.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity is cash flow from operations. In addition, as at September 30, 2019, the Company had $510,000 available under its five-year secured revolving credit facility ("Credit Facility"), which matures in July 2023. The Credit Facility may be used for general corporate purposes including refinancing existing indebtedness, funding working capital requirements, permitted acquisitions and permitted distributions. The Facility also has an accordion feature which permits the Company to increase the total capital available by an additional $200,000. As at September 30, 2019, the Credit Facility was undrawn.

On December 19, 2018, the Company entered into an uncommitted Overdraft Facility Agreement (the "European Facility") for $16,375 (€15,000). The European Facility may be used to fund working capital requirements in Europe. As at September 30, 2019, $2,341 of the European Facility was drawn.

The Company has a Credit Facility (the "Production Facility") with a limit of $15,105 ($20,000 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. As at September 30, 2019, the Production Facility was undrawn.

As at September 30, 2019, unamortized debt issuance costs were $1,205.

Management believes that cash flows from its ongoing operations, plus cash on hand and availability under the Credit Facility provide sufficient liquidity to support ongoing operations over the next 12 months. Cash flows from operations could be negatively impacted by decreased demand for the Company's products, which may result from factors such as adverse economic conditions and changes in public and consumer preferences, the loss of confidence by the Company's principal customers in the Company and its product lines, or by increased costs associated with manufacturing and distribution of products. The Company's primary capital needs are related to inventory financing, accounts payable funding, debt servicing and capital expenditures for tooling, film production, and to fund strategic acquisitions. As a result of the seasonal nature of the toy and children's entertainment industries, working capital requirements are variable throughout the year. Working capital needs typically grow through the first three quarters as inventories are built-up for the peak sales periods for retailers in the fourth quarter. The Company's cash flows from operating activities are typically at their highest levels of the year in the fourth quarter.

The table below outlines key financial information pertaining to the Company's consolidated statements of financial position:

(All amounts in USD 000's)	September 30, 2019	September 30, 2018	December 31, 2018
Cash	151,351	95,381	143,518
Trade receivables, net (1)	384,142	417,080	266,836
Other receivables (2)	106,768	114,187	114,918
Inventories	216,132	148,809	110,131
Prepaid expenses	29,274	31,184	32,854
Other assets (3)	468,388	381,472	377,140
Total assets	**1,356,055**	**1,188,113**	**1,045,397**
Trade payables	290,448	257,241	160,570
Accrued liabilities (4)	147,800	162,432	162,445
Other liabilities (5)	152,054	95,564	59,915
Total liabilities	**590,302**	**515,237**	**382,930**

1) Trade receivables are net of allowance for doubtful accounts and provisions for sales allowances. Refer to Note 8 of the interim financial statements for additional details.

2) Other receivables include film and video production tax credits, royalties, commodity tax and other balances. Refer to Note 8 of the interim financial statements.

3) Other assets are comprised of income tax receivable and all non-current assets. Refer to Notes 10, 11, and 12 of the interim financial statements for details on non-current assets.

4) Accrued liabilities are comprised of employee compensation liabilities, royalties and commodity tax balances. Refer to Note 13 of the interim financial statements for additional details.

5) Other liabilities are comprised of loans and borrowings, contract liabilities, provisions, lease liabilities, income tax payable and all non-current liabilities.

Trade receivables, net, decreased by $32,938 or 7.9% to $384,142 at September 30, 2019 compared to $417,080 at September 30, 2018, due to the decrease in sales compared to the prior year.

Inventories increased by $67,323 or 45.2% to $216,132 at September 30, 2019 compared to $148,809 at September 30, 2018. The increase at September 30, 2019 reflects the evolving retailer trend away from direct import orders towards domestic orders, the tighter management of portfolio brands using domestic replenishment, the earlier purchase of inventories in anticipation of U.S. tariffs and the consolidation of the Company's U.S. east coast warehouse from four warehouses into one.

Trade payables increased by $33,207 or 12.9% to $290,448 at September 30, 2019 compared to $257,241 at September 30, 2018, primarily due to higher inventory purchases.

Capital and Investment Framework

Over the long term, the Company plans to use its free cash flows to fund seasonal working capital requirements related to product sales, television shows, short-form content and mobile digital development, as well as strategic acquisitions.

Spin Master primarily uses third parties to manufacture, warehouse and distribute its products. As a result, the Company does not have to incur material investments in property, plant and equipment on an annual basis. The Company's annual capital expenses are generally comprised of the purchase of tooling used in the manufacturing process and entertainment property production.

CASH FLOW

The following tables provides a summary of Spin Master's consolidated cash flows for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30		
(All amounts in USD 000's)	**2019**	**2018**	**$ Change**
Net cash flows provided by operating activities	106,326	106,928	(602)
Net cash flows used in investing activities	(29,234)	(11,048)	(18,186)
Net cash flows used in financing activities	(1,749)	(34,998)	33,249
Net increase in cash	**75,343**	**60,882**	**14,461**
Effect of foreign currency exchange rate changes on cash	(1,109)	(1,174)	65
Cash at beginning of period	77,117	35,673	41,444
Cash at end of period	**151,351**	**95,381**	**55,970**

	Nine Months Ended September 30		
(All amounts in USD 000's)	**2019**	**2018**	**$ Change**
Net cash flows provided by operating activities	87,546	121,649	(34,103)
Net cash flows used in investing activities	(72,971)	(141,402)	68,431
Net cash flows (used in) provided by financing activities	(8,126)	253	(8,379)
Net increase (decrease) in cash	**6,449**	**(19,500)**	**25,949**
Effect of foreign currency exchange rate changes on cash	1,384	(2,381)	3,765
Cash at beginning of period	143,518	117,262	26,256
Cash at end of period	**151,351**	**95,381**	**55,970**

Cash from Operating Activities as compared to the same period in 2018:

Cash flows provided by operating activities were $106,326 for the three months ended September 30, 2019 compared to $106,928. For the nine months ended September 30, 2019, cash flows provided by operating activities were $87,546 compared to $121,649. The decrease was primarily driven by lower cash from earnings, offset in part by lower cash income taxes paid.

Investing Activities as compared to the same period in 2018:

The following table provides a summary of Spin Master's consolidated cash flows used in investing activities for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30		
(All amounts in USD 000's)	**2019**	**2018**	**$ Change**
Property, plant and equipment			
Tooling	6,507	5,216	1,291
Other	4,079	9,367	(5,288)
Total property, plant and equipment	**10,586**	**14,583**	**(3,997)**
Intangible assets			
Content development	8,184	(4,381)	12,565
Computer software	1,111	846	265
Total intangible assets	**9,295**	**(3,535)**	**12,830**
Total capital expenditures	**19,881**	**11,048**	**8,833**
Business acquisitions	9,353	—	9,353
Cash used in investing activities	**29,234**	**11,048**	**18,186**

	Nine Months Ended September 30		
(All amounts in USD 000's)	**2019**	**2018**	**$ Change**
Property, plant and equipment			
Tooling	19,540	18,425	1,115
Other	13,382	29,789	(16,407)
Total property, plant and equipment	**32,922**	**48,214**	**(15,292)**
Intangible assets			
Content development	27,642	15,164	12,478
Computer software	3,558	995	2,563
Total intangible assets	**31,200**	**16,159**	**15,041**
Total capital expenditures	**64,122**	**64,373**	**(251)**
Disposals	(504)	—	(504)
Business acquisitions	9,353	77,029	(67,676)
Cash used in investing activities	**72,971**	**141,402**	**(68,431)**

Cash used in investing activities was $29,234 for the three months ended September 30, 2019 compared to $11,048. The increase was primarily driven by increased investment in content development and the acquisition of Hedbanz, offset in part by lower investment in leasehold improvements.

For the nine months ended September 30, 2019, cash used in investing activities was $72,971 compared to $141,402. The decrease was primarily driven by higher cash outflows for acquisitions in the prior year and lower investment in leasehold improvements, partially offset by increased investment in content development.

Financing Activities as compared to the same period in 2018:

Cash flows used in financing activities were $1,749 for the three months ended September 30, 2019 compared to $34,998. For the nine months ended September 30, 2019, cash flows used in financing activities were $8,126 compared to cash flows provided by financing activities of $253, primarily driven by payment of lease liabilities in the current year.

Free Cash Flow as compared to the same period in 2018:

The following tables provide a reconciliation of Spin Master's consolidated Free Cash Flow (a non-IFRS measure) to cash from operations for the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30		
(All amounts in USD 000's)	**2019**	**2018**	**$ Change**
Cash flows provided by operating activities	106,326	106,928	(602)
Changes in net working capital	42,152	53,898	(11,746)
Net cash flows provided by operating activities before net working capital changes	**148,478**	**160,826**	**(12,348)**
Cash flows used in investing activities	(29,234)	(11,048)	(18,186)
Add: cash used for license, brand and business acquisitions	9,353	—	9,353
Free Cash Flow[2]	**128,597**	**149,778**	**(21,181)**

	Nine Months Ended September 30		
(All amounts in USD 000's)	**2019**	**2018**	**$ Change**
Cash flows provided by operating activities	87,546	121,649	(34,103)
Changes in net working capital	83,335	83,679	(344)
Net cash flows provided by operating activities before net working capital changes	**170,881**	**205,328**	**(34,447)**
Cash flows used in investing activities	(72,971)	(141,402)	68,431
Add: cash used for license, brand and business acquisitions	9,353	77,029	(67,676)
Free Cash Flow[2]	**107,263**	**140,955**	**(33,692)**

[2]Non-IFRS Financial Measure. See "Non-IFRS Financial Measures".

Free Cash Flow was $128,597 for the three months ended September 30, 2019 compared to $149,778. The decrease was primarily driven by lower cash flow provided by operating activities before net working capital changes and higher cash flows used in investing activities for content development.

For the nine months ended September 30, 2019, Free Cash Flow was $107,263 compared to $140,955, a decrease of $33,692. The decrease in Free Cash Flow was primarily driven by lower cash flows provided by operating activities before net working capital changes.

COMMITMENTS

In the normal course of business, Spin Master enters into contractual arrangements to obtain and protect Spin Master's right to create and market certain products and to ensure availability and timely delivery of future purchases of goods and services. These arrangements include commitments for future services, purchases and royalty payments pursuant to licensing agreements. Certain of these commitments routinely contain provisions for guarantees or minimum expenditures during the terms of the contracts. Additionally, Spin Master routinely enters into non-cancellable lease agreements for premises and equipment, which contain minimum rental payments.

During the nine months ended September 30, 2019, there were no material changes to contractual obligations specified in the Company's Annual MD&A.

OFF-BALANCE SHEET ARRANGEMENTS

Spin Master has no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

CAPITALIZATION

Share Capital

As at November 5, 2019, there were 102,197,701 shares outstanding comprised of 70,647,887 Multiple Voting Shares and 31,549,814 Subordinate Voting Shares.

As of November 5, 2019, pursuant to grants under the Company's Long-Term Incentive Plan, 267,195 Subordinate Voting Shares were issuable under outstanding Restricted Stock Units, up to 914,632 Subordinate Voting Shares were issuable under outstanding Performance Share Units (assuming vesting at a maximum of 200% for units with an outstanding performance period) and 836,596 Subordinate Voting shares were issuable under outstanding Share Option grants.

Base shelf prospectus

The Company received a final receipt from the Ontario Securities Commission for a short form base shelf prospectus dated June 5, 2019, pursuant to which, for a period of 25 months thereafter, the Company (and shareholders of the Company) may sell up to an aggregate of $750,000 CAD of Subordinate Voting Shares, preferred shares, debt securities, subscription receipts, warrants or any combination thereof as a unit. This filing provides the Company with the flexibility to access debt and equity markets on a timely basis.

RELATED PARTY TRANSACTIONS

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).

CRITICAL ACCOUNTING ESTIMATES

Included in the Company's financial statements, as well as in the Company's Annual MD&A, are the accounting policies under IFRS and estimates that are critical to the understanding of the business and to the results of operations. For the nine months ended September 30, 2019 there were no changes to the critical accounting estimates of the Company from those reported in the Annual MD&A and financial statements.

CHANGES IN ACCOUNTING POLICIES

There have been no changes to the Company's accounting policies from those disclosed in our 2018 Annual MD&A, except as set forth below.

Accounting standards implemented in 2019:

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**

INTERNAL CONTROL OVER FINANCIAL REPORTING

In July 2019, Spin Master successfully implemented an upgrade to the Enterprise Resource Planning (ERP) system globally. As a result, financial and operating transactions are recorded utilizing modern functionality provided by the new upgraded system. This new system is not in response to any identified deficiency or weakness in internal controls over financial reporting. The system implementation was designed, in part, to enhance the overall system of internal controls over financial reporting through further automation of various business processes. Except for the preceding change, there have been no changes in the Company’s Internal Control over Financial Reporting (“ICFR”) during the three months ended September 30, 2019 which have materially affected, or are reasonably likely to materially affect, the Company’s ICFR and its disclosure controls and procedures.

LIMITATIONS OF AN INTERNAL CONTROL SYSTEM

The Certifying Officers believe that any Disclosure Controls and Procedures ("DC&P") or ICFR, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met and that all control issues, including instances of fraud, if any, within the Company have been prevented or detected. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. The design of any system of control is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

NON-IFRS FINANCIAL MEASURES

In addition to using financial measures prescribed under IFRS, references are made in this MD&A to “EBITDA”, “Adjusted EBITDA”, “Adjusted EBITDA Margin”, “Adjusted Net Income”, “Free Cash Flow”, “Gross Product Sales”, “Constant Currency”, “Sales Allowances”, "Total Net Sales" and "Adjusted Administrative Expenses" which are non-IFRS financial measures. Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

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

Adjusted EBITDA is calculated as EBITDA excluding normalization adjustments, non-recurring items that do not necessarily reflect the Company’s underlying financial performance. Normalization adjustments include restructuring costs, foreign exchange gains or losses, equity-settled share based compensation expenses, impairment of intangible assets, fair market value adjustments to acquired inventories and bad debt expense. Adjusted EBITDA is used by management as a measure of the Company’s profitability.

Adjusted EBITDA Margin is calculated as Adjusted EBITDA divided by Revenue. Management uses Adjusted EBITDA Margin to evaluate the Company’s performance compared to internal targets and to benchmark its performance against key competitors.

Adjusted Net Income is calculated as net income excluding normalization adjustments, as defined above, and the corresponding impact these items have on income tax expense. Management uses Adjusted Net Income (Loss) to measure the underlying financial performance of the business on a consistent basis over time.

Constant Currency represents Revenue and Gross Product Sales results that are presented excluding the impact from changes in foreign currency exchange rates. The current period and prior period results for entities reporting in currencies other than the US dollar are translated using consistent exchange rates, rather than using the actual exchange rate in effect during the respective periods. The difference between the current period and prior period results using the consistent exchange rates reflects the changes in the underlying performance results, excluding the impact from fluctuations in foreign currency exchange rates.

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

Gross Product Sales represent sales of the Company’s products to customers, excluding the impact of Sales Allowances. As Sales Allowances are generally not associated with individual products, the Company uses changes in Gross Product Sales to provide meaningful comparisons across product category and geographical segment results to highlight trends in Spin Master’s business. For a reconciliation of Gross Product Sales to Revenue, please see the revenue table for the three months ended September 30, 2019 as compared to the same period in 2018 in this MD&A.

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

Total Net Sales represents Gross Product Sales less Sales Allowances. Management uses Total Net Sales to evaluate the Company’s total net revenue generating capacity compared to internal targets and as a measure of Company performance.

Adjusted Administrative Expenses is calculated as administrative expenses excluding depreciation and amortization, restructuring costs, equity-settled share based compensation expenses and the bad debt expense related to Toys "R" Us.

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

Reconciliation Tables

The following table presents a reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted Net Income, and Cash provided by Operations to Free Cash Flow for the three and nine months ended September 30, 2019, and 2018:

	Three Months Ended September 30			
(All amounts in USD 000's, except percentages)	**2019**	**2018[8]**	**$ Change**	**% Change**
Reconciliation of Non-IFRS Financial Measures				
Net income	**92,137**	**107,891**	**(15,754)**	**(14.6)%**
Income tax expense	32,990	38,211	(5,221)	(13.7)%
Finance costs	3,182	2,732	450	16.5 %
Depreciation and amortization	22,238	17,676	4,562	25.8 %
EBITDA (1)	**150,547**	**166,510**	**(15,963)**	**(9.6)%**
Normalization adjustments:				
Restructuring expense (2)	236	404	(168)	(41.6)%
Foreign exchange (gain) loss (3)	(4,020)	5,372	(9,392)	(174.8)%
Share based compensation (4)	3,412	3,612	(200)	(5.5)%
Acquisition related incentive compensation (5)	—	250	(250)	n.m.
Amortization of fair market value adjustments (6)	—	3,692	(3,692)	n.m.
Adjusted EBITDA (1) (8)	**150,175**	**179,840**	**(29,665)**	**(16.5)%**
Income tax expense	32,990	38,211	(5,221)	(13.7)%
Finance costs	3,182	2,732	450	16.5 %
Depreciation and amortization	22,238	17,676	4,562	25.8 %
Tax effect of normalization adjustments (7)	(1,473)	3,487	(4,960)	(142.2)%
Adjusted Net Income (1)	**93,238**	**117,734**	**(24,496)**	**(20.8)%**
Cash provided by operations	106,326	106,928	(602)	(0.6)%
Changes in net working capital	42,152	53,898	(11,746)	(21.8)%
Cash provided by operations before net working capital changes	**148,478**	**160,826**	**(12,348)**	**(7.7)%**
Cash used in investing activities	(29,234)	(11,048)	(18,186)	164.6 %
Add: cash used for license, brand and business acquisitions	9,353	—	9,353	n.m.
Free Cash Flow (1)	**128,597**	**149,778**	**(21,181)**	**(14.1)%**

1) Non-IFRS financial measure. See "Non-IFRS Financial Measures".

2) Restructuring expense primarily relates to personnel related expenses.

3) Includes foreign exchange gains/losses generated by the translation of monetary assets/liabilities denominated in a currency other than the functional currency of the applicable entity and gains/losses related to the Company's hedging programs.

4) Related to non-cash expenses associated with subordinate voting shares granted to equity participants at the time of the IPO and share option expense. As of August 1, 2018, share based compensation includes non-cash expenses related to the Company's LTIP.

5) Remuneration expense associated with contingent consideration for the SwimWays acquisition.

6) Amortization of fair market value adjustments to inventory relating to the acquisition of Gund in the second quarter of 2018.

7) Tax effect of normalization adjustments (Footnotes 2-6). Normalization adjustments are tax effected at the effective tax rate of the given year-to-date period.

8) The comparative information presented for 2018 has not been restated for the adoption of IFRS 16. The impact of IFRS 16 on Adjusted EBITDA would be an increase of $3,372 for 2018.

(All amounts in USD 000's, except percentages)	Nine Months Ended September 30 2019	2018[10]	$ Change	% Change
Reconciliation of Non-IFRS Financial Measures				
Net income	**81,482**	**143,501**	**(62,019)**	**(43.2)%**
Income tax expense	28,204	50,814	(22,610)	(44.5)%
Finance costs	8,462	6,546	1,916	29.3 %
Depreciation and amortization	68,429	48,759	19,670	40.3 %
EBITDA (1)	**186,577**	**249,620**	**(63,043)**	**(25.3)%**
Normalization adjustments:				
Restructuring expense (2)	8,105	2,234	5,871	262.8 %
Foreign exchange loss (3)	5,919	4,044	1,875	46.4 %
Share based compensation (4)	11,706	7,747	3,959	51.1 %
Legal settlement (5)	—	(15,500)	15,500	n.m.
Bad debt expense (6)	—	15,152	(15,152)	n.m.
Acquisition related incentive compensation (7)	—	1,491	(1,491)	n.m.
Amortization of fair market value adjustments (8)	—	3,692	(3,692)	n.m.
Adjusted EBITDA (1) (10)	**212,307**	**268,480**	**(56,173)**	**(20.9)%**
Income tax expense	28,204	50,814	(22,610)	(44.5)%
Finance costs	8,462	6,546	1,916	29.3 %
Depreciation and amortization	68,429	48,759	19,670	40.3 %
Tax effect of normalization adjustments (9)	6,617	4,932	1,685	34.2 %
Adjusted Net Income (1)	**100,595**	**157,429**	**(56,834)**	**(36.1)%**
Cash provided by operations	87,546	121,649	(34,103)	(28.0)%
Changes in net working capital	83,335	83,679	(344)	(0.4)%
Cash provided by operations before net working capital changes	**170,881**	**205,328**	**(34,447)**	**(16.8)%**
Cash used in investing activities	(72,971)	(141,402)	68,431	(48.4)%
Add: cash used for license, brand and business acquisitions	9,353	77,029	(67,676)	(87.9)%
Free Cash Flow (1)	**107,263**	**140,955**	**(33,692)**	**(23.9)%**

1) Non-IFRS financial measure. See "Non-IFRS Financial Measures".

2) Restructuring expense primarily relates to personnel related expenses and costs associated with facility closures.

3) Includes foreign exchange gains/losses generated by the translation of monetary assets/liabilities denominated in a currency other than the functional currency of the applicable entity and gains/losses related to the Company's hedging programs.

4) Related to non-cash expenses associated with subordinate voting shares granted to equity participants at the time of the IPO and share option expense. As of August 1, 2018, share based compensation includes non-cash expenses related to the Company's LTIP.

5) Non-recurring legal settlement in the Company’s favour in the second quarter of 2018.

6) Non-recurring bad debt expense related to the bankruptcy declaration and liquidation proceedings of TRU during the first quarter of 2018.

7) Remuneration expense associated with contingent consideration for the SwimWays acquisition.

8) Amortization of fair market value adjustments to inventory relating to the acquisition of Gund in the second quarter of 2018.

9) Tax effect of normalization adjustments (Footnotes 2-8). Normalization adjustments are tax effected at the effective tax rate of the given year-to-date period.

10) The comparative information presented for 2018 has not been restated for the adoption of IFRS 16. The impact of IFRS 16 on Adjusted EBITDA would be an increase of $7,978 for 2018.

FORWARD-LOOKING STATEMENTS

Certain statements, other than statements of historical fact, contained in this MD&A constitute “forward-looking information” within the meaning of certain securities laws, including the *Securities Act* (Ontario), and are based on expectations, estimates and projections as of the date on which the statements are made in this MD&A. The words “plans”, “expects”, “projected”, “estimated”, “forecasts”, “anticipates”, “indicative”, “intend”, “guidance”, “outlook”, “potential”, “prospects”, “seek”, “strategy”, “targets” or “believes”, or variations of such words and phrases or statements that certain future conditions, actions, events or results “will”, “may”, “could”, “would”, “should”, “might” or “can”, or negative versions thereof, “be taken”, “occur”, “continue” or “be achieved”, and other similar expressions, identify statements containing forward-looking information. Statements of forward-looking information in this MD&A include, without limitation, statements with respect to: the Company’s outlook for 2019 (see “Outlook”); future growth expectations; the Company's expansion into content for traditional television, as well as more short-form and long-form content across a variety of distribution channels; the Company's increased focus on e-commerce and direct-to-consumer initiatives; the Company's long-term goal of more than 40% of sales outside of the North America segment; financial position, cash flows and financial performance; drivers for such growth; the impact of acquisitions on future financial performance; the successful execution of its strategies for growth; and the seasonality of financial results and performance.

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

By its nature, forward-looking information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. Known and unknown risk factors, many of which are beyond the control of the Company, could cause actual results to differ materially from the forward-looking information in this MD&A. Such risks and uncertainties include, without limitation, the factors discussed in the Company's disclosure materials, including the Annual MD&A and the Company's most recent Annual Information Form, filed with the securities regulatory authorities in Canada and available under the Company's profile on SEDAR (www.sedar.com) These risk factors are not intended to represent a complete list of the factors that could affect the Company and investors are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements.

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